

# *Policy Solutions for California's Economic Future*

*Lieutenant Governor John Garamendi, Chair*

**2008**  
*Year in Review*

## *2008 Commissioners*

The Honorable John Garamendi, Chair  
Lieutenant Governor  
*State of California*

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President  
*Barreto Associates, Inc.*  
Chairman  
*The Latino Coalition*

Mr. Omar Benjamin  
Executive Director  
*Port of Oakland*

Ms. Virginia Chang Kiraly  
Community Leader &  
Small Business Owner

Mr. David Crane  
Special Advisor for Jobs & Economic Growth  
*Office of the Governor*

Mr. Daniel Curtin  
Director  
*California Conference of Carpenters*

The Honorable Robert Dutton  
Senator  
*California State Senate*

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*Community Financial Resource Center*

### STAFF

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Ms. Leslie Tamminen, Consultant

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*California State Assembly*

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President and CEO  
*California Black Chamber of Commerce*

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Mayor  
*City of Fresno*

Mr. Demos Vardiabasis, Ph.D.  
Professor  
*Graziadio School of Business and Management*  
*Pepperdine University*

The Honorable Leland Yee, Ph.D.  
Senator  
*California State Senate*



# 2008 Annual Report

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## *Letter from the Chair*

February 2009

Dear Governor Schwarzenegger and Members of the Legislature:

As Chair of the California Commission for Economic Development (CED), I am pleased to present the Commission's 2008 Annual Report: *Policy Solutions for California's Economic Future*.

The Report features a set of six overarching economic development recommendations based on important ideas the Commission received from its five industry advisory committees. Specifically, the Commission recommends that California renew its commitment to: 1) invest in the state education system; 2) rationalize state regulation; 3) expand the state's use of public-private partnerships; 4) revise state tax policies; 5) communicate the value of key industries; and 6) align state interests with regional and federal interests. We believe these recommendations will help lead California toward a more sustainable economic future in which all of the state's populations will participate.

As we look back on 2008 and forward to 2009, we find our state squarely in the midst of the nation's most severe financial crisis in decades. Yet as Chris Thornberg of Beacon Economics observes in his *State of the State* report to the Commission, unlike in most places, California's underlying fundamentals are strong. With this in mind, the Commission enters 2009 fully prepared to confront the variety of economic challenges that lie ahead. By working with leading California experts to address issues and offer solutions, my fellow commissioners and I are confident that the Commission will provide the kind of guidance needed to help California remain at the forefront of innovation and economic success.

Though the road ahead will be difficult, I look forward to working with you and my colleagues on the Commission to realize California's potential in the upcoming year.

Sincerely yours,

**JOHN GARAMENDI**

Lieutenant Governor

Chair, Commission for Economic Development



## *About the Commission*

The California Commission for Economic Development was first established by statute in 1971 and is described in California Government Code sections 14999-14999.10.

The purpose of the Commission is “...to provide continuing bipartisan legislative, executive branch and private sector support and guidance for the best possible overall economic development of the state...” The Government Code also states that the Commission is comprised of 17 members. The Lt. Governor serves as Chair. Six commissioners are members of the state legislature, three from each house. Ten private citizens are appointed by the Governor and represent various industries and organizations throughout the state.

The CED is authorized to issue studies and reports, organize conferences and events, and appoint task forces. The Commission is required to establish a number of advisory committees to assist it in studying and reporting on various sectors of the state’s economy. To date, the CED has established five advisory committees – aerospace, agriculture, biotechnology, goods movement/international trade and entertainment/tourism. The committees provide information to the CED on specific industry areas, identifying economic development related challenges and opportunities throughout the state.

Under Lt. Governor Garamendi, the commission developed a mission statement that clarifies its purpose and responsibilities.

### **CED MISSION STATEMENT**

The Commission for Economic Development provides bipartisan support and guidance to the Governor, Legislature and private sector to improve the economic well being and quality of life for all Californians through local, regional and statewide economic development. The Commission promotes a financially and environmentally sustainable growth economy that stimulates private investment, develops the domestic workforce, generates more high value jobs and diversifies public revenue.

### **HISTORY**

Established in 1971, the CED was particularly active in the 1980s and early 1990s, during Leo McCarthy’s 12-year tenure as Lt. Governor. McCarthy established economic development as a major priority. Under his chairmanship, the CED focused on promoting international trade and encouraging foreign investment in California. Gray Davis succeeded Leo McCarthy as Lt. Governor, serving from 1995 to 1999. Between 1994 and 2002, the Commission did not receive funding. In 2002, when Davis was Governor, the legislature resumed funding for the CED. Cruz Bustamante served as chair during his two terms as Lt. Governor, between 1999 and 2007. The CED held its first meeting in more than 10 years in December 2003 and continued to convene regular meetings thereafter. Although the Commission participated in a variety of activities throughout Bustamante’s term, at times, it was unable to vote formally on policy matters due to the lack of a quorum and a limited number of appointed commission members.

John Garamendi was inaugurated as Lt. Governor in January 2007 and immediately made the Commission a top priority. In the first half of 2007, Lt. Governor Garamendi worked closely with Governor Arnold Schwarzenegger to assure the appointment of a new slate of Commissioners. Executive Director Richard Baum and Deputy Director Michele Gault came on board in June 2007. The Commission held two quarterly meetings in 2007 and was very active in 2008, with four quarterly meetings, a number of advisory committee meetings, and numerous other events throughout the year.



Quarterly CED meeting at the Port of Oakland, February 2008. From left: executive director Richard Baum, Danny Curtin, Omar Benjamin, Virginia Chang Kiraly, Forescee Hogan-Rowles, Lt. Gov. John Garamendi, Hector Barreto



## *Policy Recommendations*

In keeping with its legislative charter, the Commission spent 2008 working with its appointed industry Advisory Committees (Aerospace, Agriculture, Biotechnology, Goods Movement/International Trade, and Entertainment/Tourism) crafting recommendations that will spur California's economic development. Four of the five Advisory Committees submitted to the Commission a comprehensive set of recommendations specific to their respective industries.<sup>1</sup> Mindful of the need for all of California's leaders to work together cooperatively to identify critical policies that move the state forward, the Commission developed from these submissions a set of six overarching consensus recommendations. *Each recommendation, approved by the Commission, focuses on a critical cross-cutting issue and, if implemented, will move California closer to a sustainable growth economy.*

The Commission recognizes that California's economic development policies must be created and implemented in ways that foster broad participation within the economy and that benefit lower income communities. The urgency of today's economic circumstance requires that all of the state's populations be fully engaged in economic recovery.

Therefore, pursuant to Government Code Section 14999.9, the Commission reports the following recommendations to the Governor, Legislature and citizens of California:

***1. Invest in the State Education System, Including Career Technical Education (CTE) Options, to Ensure Development of a Skilled Workforce Capable of Supporting California's Traditional and Emerging Industries.***

California has a long-standing reputation for leveraging technological innovation to drive economic prosperity. The CED believes the state will meet the emerging demands of a new climate conscious economy only if we have a prepared workforce. Moreover, in light of the rapidly growing shortage of skilled workers within the state, all Advisory Committees recognize the importance of focusing state resources on this issue to keep California's industry economically competitive in the global market. Both the Biotechnology and the Aerospace Advisory Committees recommend targeted state strategic planning efforts to better align educational courses at the University, Community College and High School levels with actual workforce needs. The CED Advisory Committee reports also identify strategies to promote productive partnerships between businesses and the educational sector to expand career technical education programs.

See e.g. in Appendix I: Aerospace 4C & D and Biotechnology 2D

<sup>1</sup>The Commission received these industry specific recommendations at its December 9, 2008 meeting and they are included in Appendix I. The Entertainment/Tourism Advisory Committee was appointed at the close of 2008, and did not have sufficient time to produce a specific report. A status update of the committee's action to date is provided in Appendix I. The Commission will make Advisory Committee members available to the Legislature where appropriate to provide further information and address any issues raised by each Committee's specific recommendations.

**2. Rationalize State Regulation by Developing Mechanisms for Coordinating Legislative Enactments and Regulatory Rulemaking to Eliminate Overlaps and Conflicts and to Streamline Regulatory Processes.**

California industries continue to seek more efficient, streamlined, and less conflicting regulation to reduce unnecessary operating costs. The Commission supports state policies that seek to eliminate overlapping and conflicting mandates. The Legislature and rulemaking bodies should clarify potential policy conflicts, and where possible, eliminate them. The California Air Resources Board, for example, should continue to coordinate its efforts to reduce greenhouse gas emissions with the efforts of other state agencies to ensure ultimate regulatory efficiency. As the Agriculture Advisory Committee recommends, it is critical that the Administration, Legislature and relevant regulatory agencies coordinate and rationalize their legislative and regulatory activities. Moreover, such activities should be informed by all stakeholders and rooted in current and relevant scientific and technological research.

See e.g. in Appendix I: Aerospace 4F, Agriculture 2B, Biotechnology 3A-D, Goods Movement 5C

**3. Expand the State's Use of Public-Private Partnerships (PPP) to Meet California's Infrastructure Needs and Further Develop its Key Industries.**

A. The CED supports expanding the use of Public-Private Partnerships (PPP), particularly for infrastructure projects such as the recently voter-approved high speed railway (Proposition 1A). Such partnerships have proven to be highly productive in Canada and the United Kingdom, and many U.S. states are in the early stages of embracing them. The Commission believes that PPP offer a tool through which the state can more effectively engage the private sector in rebuilding the economy, especially at a time of economic downturn. For this tool to be effective, however, as the Goods Movement Advisory Committee observed, the state must develop an operational framework that supports clarity of outcomes and adequate government capacity to manage the process.

B. While all Advisory Committees expressed support for PPP, the Biotechnology Advisory Committee expressly called for the creation of a permanent public-private advisory group for its industry. The Aerospace Advisory Committee emphasized the importance of developing strong partnerships between the government and the private sector, to engage each other on important workforce and economic issues impacting the industry.

See e.g. in Appendix I: Biotechnology 4ABC, Goods Movement 4ABC

**4. Revise State Tax Policies to Include Industry Incentives and/or Credits that Stimulate Job Creation, Research and Development, Manufacturing and Infrastructure Investment and Local Employment.**

All Advisory Committee reports highlight the need for tax reform and the need for tax incentives and/or credits. The Biotechnology Advisory Committee, for example, urges that research and development firms be encouraged to stay in California by shifting the timing of their taxation to the point in their growth cycle that they achieve profitability. Additionally, both the Biotechnology and Aerospace Advisory Committees recommend reinstatement of manufacturing and production tax incentives. Finally, beset by increasing runaway production in the entertainment industry, the newly formed Entertainment/Tourism Advisory Committee has commenced a scoping study with Pepperdine University to review the economic impact of television and feature films on regions of the state outside of Los Angeles County.

Advisory Committee members believe that information about regional revenues will better inform the Legislature and help address the current resistance to tax incentives for the film industry.

See e.g. in Appendix I: Aerospace 4FG&I, Biotechnology 1A-F, Goods Movement 2C

***5. Communicate to the General Public and Throughout State Government the Value of Key Industries to the State's Economic Development.***

The Advisory Committees unanimously underscored the importance of enhanced communication about the value of their respective industries to the state. In particular, the CED noted that state officials and state agencies must be better informed about the tremendous economic asset these industries represent to the state. The CED notes that, as a policy, increased communication requires little cost, and is relatively easy to implement. As the Aerospace and Agriculture Advisory Committees' recommendations note, recognition can be a key statewide economic driver for an industry; simply highlighting and celebrating achievements and showcasing existing infrastructure can ultimately translate to increased economic development.

See e.g. in Appendix I: Aerospace 1A-F, Agriculture 3A, Biotechnology 5B, Goods Movement 1AB

***6. Align State Interests with Regional and Federal Interests to Ensure Coordinated Effort and Appropriate Prioritization.***

The CED is cognizant of the need to coordinate its recommendations within the framework of current regional and federal priorities. For example, the Goods Movement/International Trade Advisory Committee report calls for alignment of state interests with the broader political agenda; the report recommends that California coordinate its state and federal (Congressional) efforts to ensure maximum funds return to the state from the expected stimulus package, and infrastructure funding in the next federal transportation reauthorization bill. The report also recommends regional coordination (e.g., with Washington and Oregon) on transportation and goods movement issues, including freight movement and emissions.

See e.g. in Appendix I: Aerospace 2E, Agriculture 1AB & 4B, Biotechnology 3B, Goods Movement 2.

## State of the State: California Economy Review

by

*Christopher Thornberg, Founding Principal*

**Beacon Economics**

*February 2009*

### Overview: Recession Economics and California

The credit crisis that began this past August has captured headlines and led to a dramatic shift in the attitudes of policymakers and economists who were previously bullish on the economy and had denied the possibility of a recession. Today, the conversation has changed, bringing a new mandate: Find a solution to the financial crisis before Wall Street drags Main Street down with it. Although stabilizing the banking sector is an important step toward ultimate recovery, the causality of the crisis has been completely reversed in this formulation. The state of California is not threatened with recession because of what's happening on Wall Street. Rather, the state has been in a recession for a number of quarters, and that recession is what has precipitated the turmoil on Wall Street.

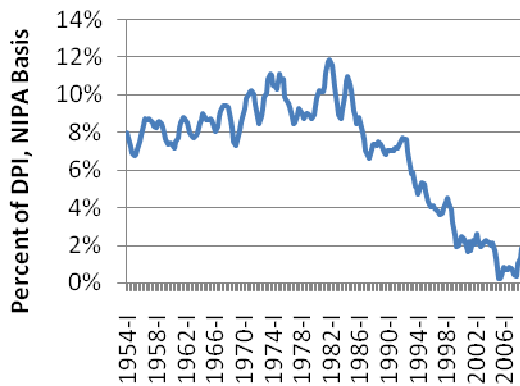
To paraphrase Tolstoy, all expansions look alike, but each recession is painful in its own way. This downturn had a very slow start because the various components of spending—housing, consumer spending, and business spending—have not been cycling together as they normally do. The initial weakness in the state was due primarily to problems in the housing market and the slowing of residential construction, while the rest of the economy continued forward.

But the situation shifted. The problems that began in housing spread to the rest of the economy. Mortgage problems led to a broader financial crisis. The drop in net wealth, owing to both declining home prices and the battering that the financial markets have experienced, is taking a toll on consumer spending. Corporate profits are suffering and business spending is starting to move into freefall. And the last bastion of strength in the economy—the external accounts—will start to take a turn for the worse as the U.S. dollar has surged in recent weeks to levels not seen since 2006. In short, the United States and California have moved from a housing recession into a full-blown recession.

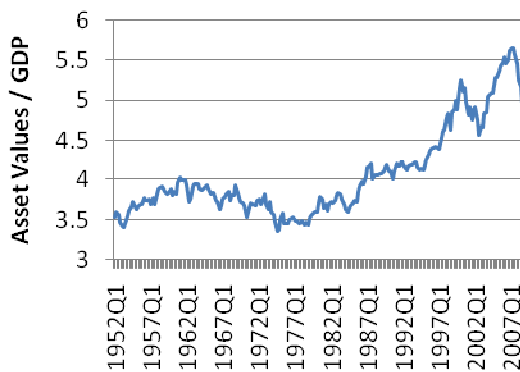
In late 2008, the National Bureau of Economic Research finally announced what was obvious to those economists willing to take an honest look at the numbers—that the United States was in a recession and had been since December of 2007. For California, the downturn began even earlier and has hit harder than for the U.S. overall, at least as measured by the unemployment rate—the best indicator we have at the local level. For the nation, the unemployment rate started rising at a rapid pace in the first quarter of 2008, while here in California it began to rise at a substantial pace in the third quarter of 2007. California's unemployment rate has risen 4 percentage points from the trough to over 9 percent through December, compared to just a 2.4 point rise for the nation overall.

Interestingly, payroll employment seems to have fared better for the state than for the U.S. overall, with losses of only 1.1 percent in the state from the employment peak, compared to 1.5 percent from the peak for the nation overall. Yet this number is likely to be revised substantially when the new benchmarked employment series is released in February of this year, so it should be considered at best with caution—the situation is likely worse than what we see in the numbers currently.

### US Private Savings Rate



### National PE Ratio



Sources: Federal Reserve, Bureau of Economics Analysis and Beacon Economics

Notes: DPI stands for disposable personal income, or income after taxes. The Bureau of Economics Analysis who generate the National Income and Product Accounts (NIPA) measures the savings rate as the percent of disposable income not spent on current consumption in a particular quarter.

Even though there is much hysteria surrounding the current downturn in the economy, we need to keep in mind that a recession, by definition, is an anomalous period of time where the economy produces fewer goods and services than it could under optimal conditions. The reason for this underperformance has to do with some large disturbances in the economy commonly associated with rapid declines in demand in certain sectors, causing a sharp loss of jobs and income in that sector. The initial shock is compounded by a vicious cycle, where laid-off workers pull back on spending, reducing aggregate demand more, causing more workers to lose their jobs, and so on.

No matter how grim things get, it is important to remember that the base ability to produce goods—as determined by the quantity of capital, labor, skills, technology, and infrastructure—is not itself affected. As rough as the downturn may be, the disturbances are eventually worked through, and the economy can begin to produce again at a normal level. Often economists are asked what it will take for a nation or region to pull out of a sharp downturn. The best answer is simply, “time.”

This is not to say that there isn’t room for public policy. Indeed, good government policy comes in two forms. First, the government can mitigate the direct effects of a downturn through the use of a public safety net (such as unemployment insurance and welfare) to help those directly affected by the downturn. Second, the government can minimize the impact of the vicious cycle by boosting aggregate demand through monetary and fiscal policy. Note that it is impossible to fix the underlying imbalance that set off the chain of events—but good policy can at least reduce the overall slowing of the economy.<sup>1</sup>

The last downturn in the U.S. economy was in 2001, when the collapse of the dot-com equity market bubble sparked a sharp pullback in business investment. This time the problem is

much broader in scope, with roots stemming back to the early 1990s. And while much of the focus has been on the collapse of the housing market and the troubles in the banking sector, the real issue is the American consumer. Housing and banking are merely the side effects of the current troubles in the economy.

<sup>1</sup>Although good policy can help, bad policy can make things worse. The federal government made two enormous errors during the first stages of the late 1920s economic slowdown that eventually turned it into what we now call the Great Depression. First, the Federal Reserve stood by and did nothing as banks failed, causing other deposit holders to panic and rush to withdraw their funds, thereby causing more banks to fail. They also allowed the money supply to drop sharply, causing a destructive deflationary cycle. Second, the federal government passed the Smoot-Hawley Tariff Act, intended to protect American firms from foreign competition. Instead, the act set off a global trade war that more or less shut trade off. Thankfully, such mistakes are unlikely to be repeated.

Over the past decade, there has been a tremendous run-up in asset values in the U.S. economy—not just homes but also other forms of real estate, for financial instruments (bonds and equities) and so on. Residential real estate, of course, stood out. For example, here in the state of California, median home prices peaked at near \$470,000, even though the median homeowner income in the state is roughly \$75,000 per year. Thus, at the peak, that median house would have cost the median homeowner close to 60 percent of their gross income per year if purchased with 10 percent down and a normal 30-year fixed-rate mortgage. Clearly this made no sense. The same calculation can be made for the price of many assets.

The result of this expansion of wealth on the part of American consumers was a precipitous drop in private savings rates (from 9 percent in 1993 to negative territory by 2006) and a sharp increase in consumer debt levels. This consumption binge was reflected nationally by the unsustainably large trade deficit the U.S. was running.

Unfortunately, most of this wealth was imaginary—homes were not worth as much as they were sold for, nor

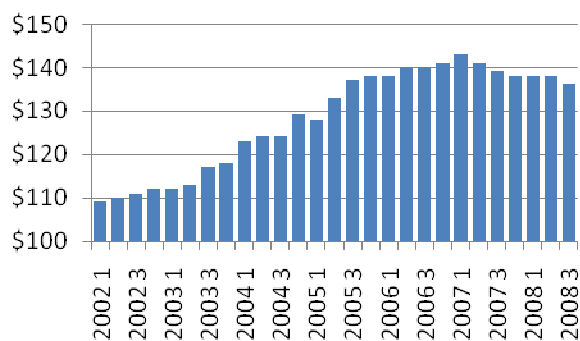
were people's pension funds, mutual funds, or hedge funds. Assets have a fundamental value, tied to their future ability to produce goods or services. The best way to see the overvaluation is to consider the national price-to-earnings (P/E) ratio, as measured by the market value of household holdings of wealth relative to gross domestic product (GDP). The ratio stayed relatively stable from 1952 to 1994, falling between 3.5 and 4.2. Starting in 1994, this ratio increased to well over 5 in the midst of the dot-com equity bubble.

However, the collapse of the tech bubble was quickly made up for by real estate and the appreciation of other assets, pushing the ratio up past 5.5. To put this in perspective, this increase suggests that overall assets in the U.S. were overvalued by close to 30 percent, or by \$22 trillion overall. With asset values now in full collapse and returning to realistic levels, consumers are being forced to save more, which is good in the long run but necessarily precipitating a sharp pullback in consumer spending, generating a dramatic effect on the economy. For obvious reasons, this collapse is hitting the financial sector as well. Banks are directly exposed by the debt they hold, debt secured against assets that are rapidly depreciating in value.

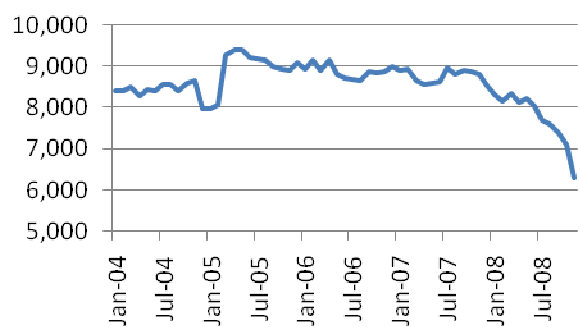
California is feeling the pinch worse than most places. Because the state experienced a greater run-up in real estate asset values, it is hence experiencing a more dramatic pullback in consumer spending. Additionally, the state received, in value terms, close to a third of all sub-prime home lending, and as a result is seeing a vast number

of foreclosures. Moreover, it has greater than average employment exposure to the two industries most directly tied to the real estate bubble—construction and financial employment. Lastly, the state's already

### CA Taxable Sales (\$Bil)



### CA Business Incorporations



Data Seasonally Adjusted

Sources: California Bureau of Equalization, California Department of Finance

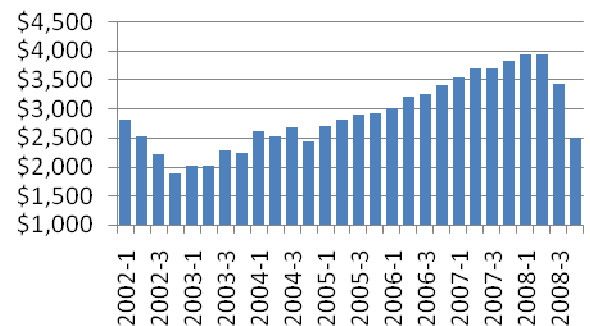
fragile fiscal situation has turned dire, threatening even more direct pain as the state is forced to cut back on spending. This can be seen no more clearly than in taxable sales in the state, already down 4 percent from the peak prior to this past Christmas's dismal selling season.

Other signs of the slowing economy are in place as well. Business incorporations have slowed to their slowest pace since the 1990s. New vehicle registrations have fallen sharply. Even venture capital funding has slowed in recent quarters as a result of the financial crisis. According to data from the PWC-Moneytree venture capital survey, overall investments in California fell from \$4 billion in the second quarter of 2008 to \$2.5 billion in the fourth. Another stress on the state has to do with the late year collapse in international trade, exacerbated by the global economic downturn. Exports, which had been growing at close to 15 percent per year due to the depreciated value of the US dollar (nominal value) in early 2008 were down by 12 percent year over year in November. Imports, already growing weakly, also collapsed and were off by 16 percent year over year in November.

Although there has been much criticism of the actions taken by the Treasury and Federal Reserve (or perhaps more precisely, criticism regarding actions that have not been taken), realistically they have done a good job of stabilizing the financial sector. While the spreads on risky debt, not surprisingly, remain at all-time high levels, spreads on safer short-run financial and nonfinancial short-run paper have fallen sharply over the past two months as a result of direct injections of equity into the market and the willingness of the Federal Reserve to take the unprecedented action of lending to firms outside the banking system. The London interbank offered rate (LIBOR) has similarly fallen to low levels. The new administration promises to aggressively move to stimulate the economy through an aggressive spending plan, and it may also cut taxes—a welcome relief to beleaguered consumers.

Despite this, the underlying problems in the economy will not be solved quickly. The current Beacon Economics forecast calls for a GDP decline of close to 3 percent from the peak, and for unemployment in the state of California to hit 11 percent. Yet we expect 2009 to be the bottom, and recovery to begin in 2010. The good news is that we expect California's recovery to be relatively robust—unlike in the 1990s when the loss of a large portion of the aerospace industry left the economy reeling for years. Further, we believe that the collapse in home prices will be a net positive for the state in the long run, and return the state to a competitive position within the U.S. economy. But the ride from here to there will be a rough one—hang on.

**CA Venture Capital (\$Mil)**



**CA Port Traffic (Y-o-Y growth)**



Sources: PWC Moneytree Survey, US Census

This report will focus not on the short-run issues detailed here. Rather we will concentrate on the underlying long-run trends within the California economy and how those trends may change or not at the end of the current business cycle. We will look at state gross domestic product, demographics, the labor markets, and the real estate market.

## State Gross Domestic Production

In the aftermath of the 2001 recession, there were numerous calls for substantive reform at the state level to remove “job-killer” regulations, as well as calls for increased tariffs or other federal changes to prevent outsourcing. Much of this rhetoric has largely missed the mark. The 2001 downturn was more about the collapse of the information technology industry back to realistic proportions than anything to do with public policy or international competition.

Indeed, although the state could become more business friendly in some areas, any problems in this regard do not seem to have had a substantial impact on the ability of the state to grow. The state’s economy has grown (in real inflation adjusted terms) on average by four percent per year over the past decade, a third again more than that of the U.S. overall. The only two years out of the last ten where the state’s economy did not grow faster than the nation’s was during the 2001 recession and during 2007, the most recent year available. Some of this gap is due to the high-tech nature of the state’s manufacturing sector, but even for services only, the state is growing considerably faster than the nation overall, at 3.4 percent vs. 2.3 percent.<sup>2</sup>

This isn’t just seen in output. Employment has also grown faster in California than in the rest of the U.S. Indeed, one may quibble with these numbers and think they derive from the creation of “bad”, or low-wage, jobs. But even income growth shows the difference—on a per capita basis the state has seen incomes grow at a faster pace than in the U.S. overall. The state clearly is doing well—perhaps despite itself. This growth in income is not just due to the real estate bubble either—the growth has occurred in most every sector of the economy.

California’s largest sector—like the nation’s—is real estate and rental. We have to be cautious about what this means—as it doesn’t mean what you likely think it does. The local area GDP numbers are measured on a flow basis—it has nothing to do with the amount of new building (this is in the construction sector) or the value of real estate (this is a stock and won’t be included in any way in the GDP numbers). Rather the GDP in real estate has mainly to do with the value of services provided to companies and individuals who rent space for their business. This measure is based on what is called a “value-added” basis—that is to say, total revenues minus the cost of goods sold for each sector, implicitly measuring the value added to the final product by the labor and capital employed in that industry. The real estate sector is very capital intensive and has very few costs to goods sold (utilities being the largest single input) and hence shows up as the largest industry on this basis. As the economy weakens and less space is rented, this GDP component will shrink—but it has nothing to do with the collapsing market values of the real estate asset.

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<sup>2</sup>The rapid pace of technological advancement and the rapid decline in prices makes real growth in tech sectors look large even if overall the companies are making roughly the same profit with the same number of workers.

Other sectors are also measured on an output basis as well. Surprisingly, manufacturing is still a smaller proportion of the California economy than for the U.S. overall, although it has been growing at a faster pace as already noted. It is also worth noting that manufacturing has been growing at a solid pace, both in the state and in the U.S. overall, despite the loss of jobs in the industry—a function of substituting capital for labor in the industry.

The public sector and professional/technical services round out the largest sectors. The second tier of large industries in the state by value added includes wholesale and retail trade, information, finance, and health care.

There are other surprises that may jump out from the data on state production. For example, while government spending in the state has been growing at a greater than average rate, government still represents a smaller portion of the state economy than it does for the nation overall—11.3 percent compared to 11.9 percent.

And while Southern California is home to the two largest container ports in the nation, transportation is a smaller part of the California economy than for the overall U.S. economy. The transportation sector has also been growing more slowly in California than elsewhere; it is one of only a few sectors that are growing more slowly in the state than in the U.S. as a whole. The reality is that the flow of goods through the ports is not a terribly large component of the economy—most goods brought in don't even pass through customs; instead, they are placed directly on a train and shipped to the Midwest for inspection. As such, the employment and output impact is quite small, even though the impact on the environment and the stress on local infrastructure are quite high.

Looking at the pattern of growth on a regional basis, we see that for the most part the urban areas of the state grew at a better pace than the state overall—testimony to the continued urbanization of the state. In general, the fastest-growing urban economies were the smaller ones, particularly those with a deep exposure to the

### State and National GDP by Industry

*Inflation adjusted growth rates*

*Source: Bureau of Economic Analysis*

	Growth 97-07		Market Share 2007	
	US	CA	US	CA
<b>All industry total</b>	2.9%	4.0%		
<b>Agriculture</b>	3.3%	3.8%	1.2%	1.6%
<b>Mining</b>	-1.1%	-5.5%	2.0%	0.8%
<b>Utilities</b>	2.2%	3.3%	2.2%	1.8%
<b>Construction</b>	-1.3%	0.1%	4.1%	3.8%
<b>Manufacturing</b>	2.7%	6.6%	11.8%	9.9%
<b>Durable goods</b>	4.9%	9.1%	6.7%	5.7%
<b>Nondurable goods</b>	-0.3%	1.8%	5.0%	4.2%
<b>Wholesale trade</b>	3.2%	3.8%	5.8%	5.7%
<b>Retail trade</b>	4.7%	5.8%	6.5%	6.9%
<b>Transportation</b>	3.5%	3.0%	2.9%	2.3%
<b>Information</b>	7.9%	8.6%	4.7%	6.2%
<b>Finance and insurance</b>	4.9%	6.4%	8.1%	6.6%
<b>Real estate and rental</b>	2.8%	3.8%	12.7%	16.6%
<b>Professional / technical</b>	4.9%	5.1%	7.3%	8.8%
<b>Management companies</b>	-0.5%	-5.1%	1.9%	1.5%
<b>Administrative services</b>	2.3%	1.5%	3.1%	3.1%
<b>Educational services</b>	2.0%	2.9%	0.9%	0.8%
<b>Health care</b>	3.0%	3.8%	7.0%	6.0%
<b>Arts and recreation</b>	2.2%	2.2%	1.0%	1.2%
<b>Accommodation / food</b>	2.6%	3.7%	2.7%	2.7%
<b>Other services</b>	0.3%	0.5%	2.3%	2.3%
<b>Government</b>	1.1%	1.9%	11.9%	11.3%

real estate bubble (the most current data is from 2006). We can expect to see this pattern switch in the current year, as most of the economic weakness is driven by the collapse of housing.

### GDP by MSA (2001 to 2006)

\$Millions, Real

Source: Bureau of Economic Analysis

MSA	GDP 06	Gro- wth
Los Angeles-Long Beach-Santa Ana	680,230	3.6%
San Francisco-Oakland-Fremont	292,078	2.3%
San Diego-Carlsbad-San Marcos	157,509	4.3%
San Jose-Sunnyvale-Santa Clara	135,080	2.5%
Riverside-San Bernardino-Ontario	110,735	5.3%
Sacramento-Arden-Arcade	91,751	5.3%
Oxnard-Thousand Oaks-Ventura	34,359	4.6%
Fresno	26,632	4.0%
Bakersfield	25,067	5.1%
Santa Rosa-Petaluma	19,520	2.3%
Santa Barbara-Santa Maria-Goleta	18,381	3.5%
Stockton	18,305	4.1%
Salinas	17,682	3.5%
Modesto	14,356	4.7%
Vallejo-Fairfield	12,520	3.9%
San Luis Obispo-Paso Robles	10,141	4.8%
Visalia-Porterville	9,992	5.8%
Santa Cruz-Watsonville	9,709	0.5%
Napa	6,654	3.6%
Chico	5,625	3.7%
Merced	5,381	5.0%
Redding	5,380	4.4%
Yuba City	4,016	3.9%
El Centro	3,662	3.5%
Hanford-Corcoran	3,639	5.5%
Madera	3,162	6.7%

The largest economy in the state is, not surprisingly, the Los Angeles/Orange County MSA. What may be surprising is how much larger it is. These two counties account for well over one-third of the state's economic production. Their GDP is equivalent to that of the Bay Area, San Diego, and the Inland Empire combined.

Although many of these regions are growing rapidly, the economic center of gravity in the state is still in the coastal region. What might also come as a surprise is that the GDP growth rate in the Southern California region is faster than in the tech-heavy Bay Area, owing to the impact of the 2001 downturn and the subsequent slow recovery in the region.

The fastest growing economies from an output perspective have been the inland economies where most new home building has been occurring. An inevitable process in the California economy will be the shift of economic strength to these less dense areas. However, these are also the areas that are feeling the worst pinch in the current downturn.

### Employment

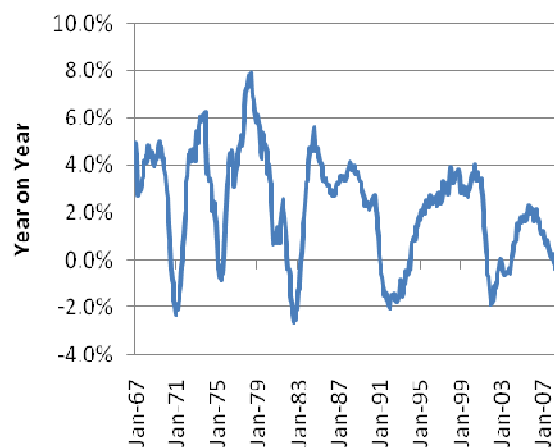
The health of the national economy is often measured on the basis of output. In contrast, California's economy lacks current data on local GDP, and subsequently its health tends to be measured by using labor markets as a barometer. From this perspective, unfortunately, the state of California's economy is in bad shape. This time last year, academics were debating whether the United States would tip into recession as the unemployment rate in California rose above 6 percent for the first time since 2004. It is now clear (and has been made official) that the United States is in a recession and has been for some time. It is also clear that California has been at the

forefront of that charge, tipping into recession well before the nation early in the second quarter of 2007.

The economic downturn has put enormous pressure on California's labor market and, unlike the 2001 recession, the effects have been felt broadly across counties and industries. In December of 2008 the unemploy-

ment rate had risen to 9.3 percent—the highest unemployment rate in California for over a decade—with over 1.7 million people unemployed. Additionally, total non-farm payroll employment is down over 250,000 jobs in 2008 through December, a loss of nearly 1.7 percent. As noted, it is likely worse than what we are currently seeing, given the known problems with the payroll survey in business cycles. The true extent of the losses will be revealed after the payroll numbers are revised with the new benchmark this month. The seasonally unadjusted Quarterly Census of Employment and Wages (QCEW), which is a more accurate (but highly delayed) series, shows a bleaker picture, with total nonfarm employment down by over 150,000 jobs from 2007 average levels. This lends

### CA Payroll Employment Growth



Source: California LMID

### Regional Unemployment Rates

Percent of Labor Force

Source: California LMID

	Nov-08	Trough to Current	2001 Trough to Peak
Bakersfield	10.70	3.21	2.82
Chico	9.90	3.57	1.86
El Centro	22.23	5.84	1.56
Fresno	12.20	4.40	2.16
Hanford-Corcoran	11.73	3.83	3.15
Los Angeles-Long Beach	9.01	4.38	2.20
Madera	11.24	4.14	2.86
Merced	14.26	4.98	3.07
Modesto	12.98	5.02	2.79
Napa	6.09	2.22	1.95
Oakland-Fremont	7.31	2.90	3.91
Oxnard-Thousand Oaks	7.15	2.57	1.81
Redding	11.81	4.74	2.14
Riverside-San Bernardino	9.65	4.33	1.99
Sacramento-Arden-Arcade	8.24	3.37	2.04
Salinas	10.11	3.49	3.10
San Diego-Carlsbad	6.90	2.68	2.60
San Francisco-San Mateo	5.74	1.96	4.39
San Jose-Sunnyvale	7.29	2.86	6.69
San Luis Obispo	6.74	2.73	1.86
Santa Ana-Anaheim-Irvine	6.13	2.61	2.71
Santa Barbara-Santa Maria	6.28	2.17	1.59
Santa Cruz-Watsonville	8.37	2.81	3.72
Santa Rosa-Petaluma	6.73	2.73	3.08
Stockton	12.08	4.52	2.89
Vallejo-Fairfield	8.07	3.21	2.43
Visalia-Porterville	12.77	3.96	2.91
Yuba City	14.47	5.61	3.01

credence to the notion that the employment situation in California is likely worse than current estimates show.

Furthermore, this recession is causing pain throughout the state. Unemployment rates were higher in November 2008 than they were in November 2007 in each and every region of California (we do not have figures for December yet in many areas). Unemployment rates were up 2.7 percentage points in Southern California, 2 points in the Bay Area, roughly 3 percentage points in the northern and southern Central Valley, and 2.2 percentage points in the Central Coast. This stands in relative contrast to the downturn at the beginning of this century, when losses were mostly isolated to the Bay Area and tied to the “dotcom-bomb.” This time the recession is more widespread because of the broad effect of the collapse of the housing bubble and because of the consumer-led (rather than business-led) nature of the slump.

Although the rhetoric at the national and state level is intense, and although we expect a downward revision in employment, we want to be clear that what we are seeing in California so far is approximately on par with a “typical” recession. The unemployment rate is still considerably below the peak hit in the early 1990s,

and so far losses in payroll employment are less than those seen in 2000 or in 1990. This is not to diminish the economic hardships facing many families in the state, but merely to say that in some cases the rhetoric has been out of proportion in relation to the reality.

The pattern of job losses demonstrates that the pain has been felt across sectors. Obviously, the worst hit sector of 2008 was the construction industry. After adding about 30,000 jobs a year during the formation of the housing bubble, construction has now shed over 120,000 jobs from the peak employment seen in the first quarter of 2007—losing nearly 60,000 jobs in 2008 alone. As unemployment has risen and home equity has evaporated, the retail trade sector has been hit hard as well—losing almost 50,000 jobs in 2008, leaving it over 61,000 jobs off-trend. Given the subprime mortgage meltdown, the record numbers of foreclosures, and the state of the financial markets, it is no wonder that financial jobs are suffering as well, shedding 22,000 jobs in 2008.

### State Employment Trends

*Thousands of Jobs*

*Source: California LMID*

	Nov-08	07 to 08	04 to 07	Difference
<b>Total Non-Farm</b>	15,022.4	-130.1	171.9	-302.0
Construction	795.8	-59.6	-0.8	-58.8
Durable Goods	900.5	-20.2	-14.2	-6.0
Non-Durable Goods	521.7	-9.4	-5.5	-3.8
Wholesale Trade	715.6	-6.4	19.1	-25.4
Retail Trade	1,621.5	-47.8	14.2	-61.9
Information	476.8	5.2	-5.5	10.7
Finance and Insurance	583.2	-22.2	-7.9	-14.3
Real Estate & Rental	279.0	-2.0	1.0	-3.0
Professional	1,081.1	12.1	45.0	-32.8
Administrative	978.5	-22.7	13.4	-36.2
Education and Health Services	1,738.5	51.5	37.1	14.4
Leisure & Hospitality	1,556.0	-2.1	35.4	-37.4
Other Services	513.3	-4.1	4.2	-8.3
Government	2,529.5	5.6	37.5	-31.9
State Government	494.5	-1.1	11.9	-12.9
Local Government	1,787.7	5.5	27.3	-21.7

However, the turmoil transcends these obvious sectors, and problems are appearing in most of the major sectors with the exception of health care and government. The professional and technical services industry has yet to shed any jobs in 2008, though it is operating at nearly 33,000 jobs off-trend. Job losses in wholesale trade, retail trade, administrative (which houses temporary workers), and leisure and hospitality underscore the consumer-led nature of this downturn. Indeed, even the manufacturing sectors, which have been in decline for some years, are experiencing job losses well above trend now.

These short-run employment effects are beginning to assert themselves, showing up in wages. Based on recent evidence from the QCEW, wages in the first quarter of 2008 had already begun to fall in consumer-driven industries such as retail trade and arts. Transportation and warehousing and other services are among the other sectors that failed to post any wage gains in the most recent data. Additionally, construction, which typically experiences 3 percent wage growth each year, is poised for abysmal growth in 2008. As foreclosures mount, home prices continue to decline, and new construction continues to languish; the rafts of dislocated construction workers increasing the labor supply will likely put more downward pressure on wages in this industry.

Despite these disturbing statistics and the current economic difficulties, there are positive signs for workers in California. Over the 10-year period between 1997 and 2007, California saw payroll employment grow by over 2.1 million, from about 13.5 million positions to over 15.6 million positions.

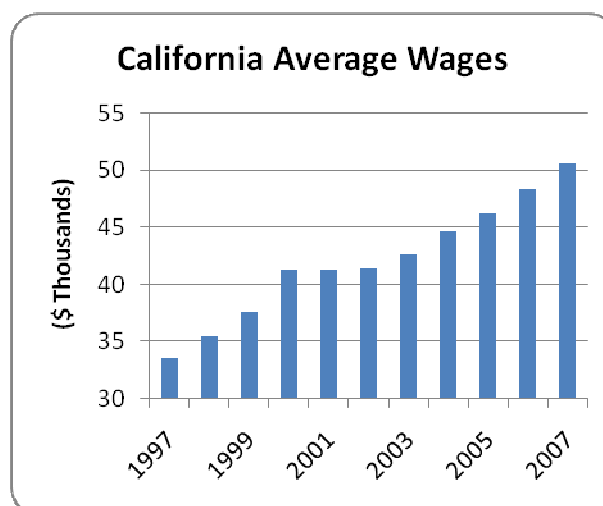
Though a few sectors contracted over this period, including manufacturing, management companies, agriculture, and mining, employment in other industries was up across the board. Over 300,000 jobs were added in just construction and health care. Accommodation and food services, along with retail trade, were up by 260,000 and 237,000 jobs, respectively, by 2007. Administration, finance, wholesale trade, and educational services, while posting more modest gains, still increased the number of positions by about 100,000 each. Granted, some of these gains were the result of an unsustainable bubble, but the net result is that California has created a significant number of jobs in the past 10 years, better certainly than the previous 10-year period and better than in the nation overall.

California also exhibited a strong upward trend in average wages between 1997 and 2007. In 2007, the average annual wage of a worker in California was \$50,538. This represents an increase of nearly \$17,000, or 33.5 percent from its 1997 level of \$33,608. At the industry-level, the average annual wage was up in each and every sector. Not surprisingly, real estate was the only industry to go from a below-average annual wage in 1997 to having an above-average annual wage in 2007.

**Average Annual Wages: Selected Sectors**  
Dollars, Source Bureau of Labor Statistics

Sector	Wages 07	Wages 08	Diff.
Retail Trade	30,879	30,517	-312
Arts	46,981	40,931	-6,084
Construction	51,621	51,880	156
Transportation/Warehousing	44,717	44,738	21
Other Services	25,300	25,329	29

In large part, the high-wage industries in 1997 (securities, performing arts and spectator sports, petroleum and coal products manufacturing, oil and gas extraction, and computer and electronic product manufacturing) remained the high-wage industries in 2007. Additionally, technology jobs in data processing and other information services climbed into the higher pay brackets, with annual average wages of \$95,000 and \$165,000, respectively, in 2007. More lackluster wage growth of around \$5,000 per year occurred in food services and drinking places, sporting goods, amusements,



and clothing and clothing accessories stores—though this represented more than 30 percent growth on average over the period.

The outlook for employment in the state will not get better in 2009—but we do expect a recovery in 2010. Unlike the last major statewide economic downturn in 1990, this slowing will not be accompanied by a massive and long-term contraction of a major industry, such as aerospace. Therefore, while the overall downturn may be deeper, the time to recovery will be quicker.

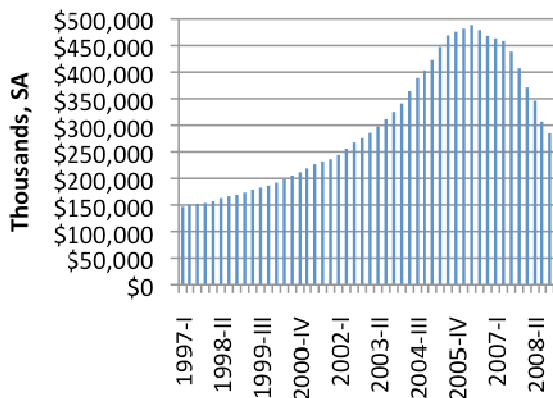
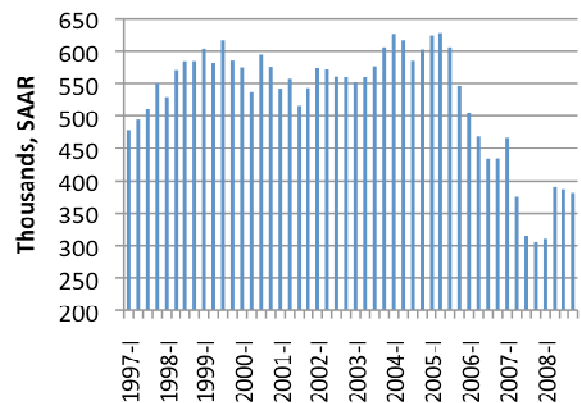
## Real Estate

Although the problems in the economy started in the real estate sector, we now know that housing was not the sole problem. Rather it was the canary in the credit coalmine. The general asset bubble began its collapse with declines in the housing market, but the breakdown has spread across the financial system's many parts. Corporate debt and other personal debt are all showing the same type of stress—rising delinquencies and heightened write-offs by banks. Even as home prices have been falling at a record pace, so too have the equity markets turned. The major indexes are down 35 percent to 45 percent from the start of 2008. Given this pattern, it's worth looking at the housing market to see if recovery is starting to occur, as signs of a turnaround may predict that the broader measures may be getting close to the bottom.

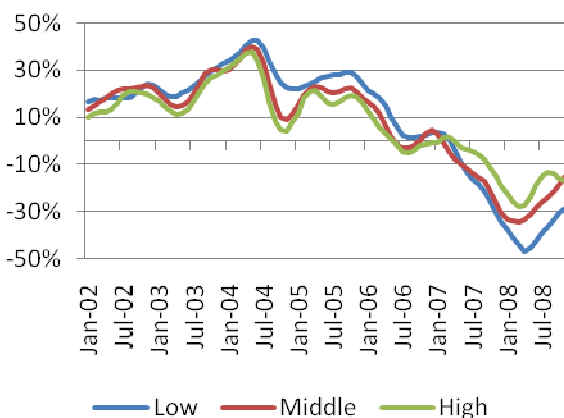
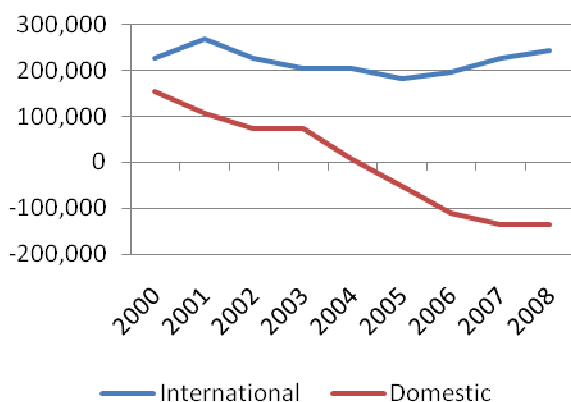
One recent sign that may seem encouraging has come from the sales markets. According to numbers from both DataQuick and the California Association of Realtors, home sales in the state were up sharply from the previous year. Sales activity is a strong leading indicator of the direction of the market under normal circumstances—possibly implying that prices will begin to firm up. Unfortunately, this sign of recovery is largely a red herring. Sales in the state are being driven more by foreclosures than by true strength in the market. And this isn't much of a surprise—according to data from RealtyTrac, approximately 3.5 percent of all housing units in the state, around 400,000 units, are currently in the foreclosure process or already REO (real estate-owned property, owned by the foreclosing bank). With such a heavy stock, banks need to rid themselves of inventory, and prices are actually falling with the sales of these units rather than firming up as is typically seen when sales activity ticks up. Indeed, well over half of all sales in the state at the moment are foreclosed property and another quarter are distressed sales.

### Stock of Foreclosed Homes for 32 largest California Counties

	#	% REO	% Homes		#	% REO	% Homes
Yuba	1,163	51.6%	8.8%	Ventura	6,173	52.9%	3.6%
Shasta	1,184	46.3%	2.7%	Merced	6,884	63.2%	16.5%
Butte	1,221	48.0%	2.4%	Solano	7,720	59.5%	8.5%
San Francisco	1,368	48.5%	1.1%	Fresno	9,712	58.2%	6.2%
San Luis Obispo	1,382	44.4%	2.3%	Santa Clara	10,539	54.2%	3.0%
Santa Cruz	1,530	51.2%	2.7%	Stanislaus	11,347	61.7%	11.3%
Yolo	1,576	53.0%	4.2%	Kern	13,270	57.6%	9.0%
El Dorado	1,601	50.5%	3.3%	Alameda	13,807	57.0%	4.6%
Imperial	1,647	56.3%	7.2%	San Joaquin	16,019	63.2%	12.2%
Madera	2,426	58.0%	9.0%	Contra Costa	16,880	60.6%	6.5%
Santa Barbara	2,469	56.9%	3.2%	Orange	20,547	48.9%	3.4%
San Mateo	2,589	45.0%	1.7%	Sacramento	24,235	60.6%	7.9%
Tulare	3,623	53.8%	5.0%	San Diego	31,649	56.4%	5.4%
Placer	3,661	52.6%	4.1%	San Bernardino	39,737	57.8%	10.3%
Sonoma	4,218	53.8%	3.8%	Riverside	46,410	57.8%	10.2%
Monterey	5,251	58.3%	8.1%	Los Angeles	76,597	54.1%	4.9%

**Median Existing Home Prices****Existing Home Sales**

Source: Dataquick

**Price Changes by Tier****Net Migration**

Sources: Dataquick, Case Shiller Tiered Home Price Index,  
CA Department of Finance

More importantly, while an increase in sales will eventually help by drawing down the existing inventory of foreclosed units, sales will have to increase much more in order to make real headway against the still rising tide of foreclosures. Of all current outstanding mortgages in the state, 3.7 percent are 60 to 90 days behind on payments according to figures from the Mortgage Bankers Association. Short of some radical change in federal policy, most of these mortgages will end up in foreclosure at some point in the next six months. The state has passed a rule delaying the actual serving of papers—but this has only pushed the problem out two months.

There are also long-run problems that have yet to be addressed. Quite a few recent homebuyers used exotic mortgages that have low initial payments. Many of these products do not reset (jump to a higher payment base) until 2010 and 2011. Most of these properties will likely go into foreclosure when this reset occurs, since the payments will reflect some of the outrageous prices that were being paid for homes at the peak of the bubble. Even if foreclosure rates have peaked, they will remain substantially higher than their long-run average and will continue to put downward pressure on prices.

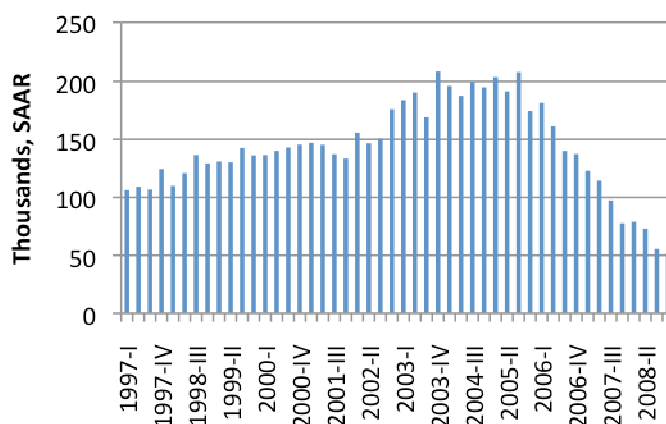
Indeed, prices continue to fall at a substantial pace, although there does at least appear to be deceleration in the pace. Overall, median prices in the state rose from \$150,000 in 1998 to nearly \$500,000 in 2006. Median prices have since dropped below \$300,000 at the end of

2008. While prices have gotten back to levels in line with incomes, it is likely that prices will continue falling through 2009, given both the stock of foreclosed properties and the weakened economy. Price declines are occurring across the board. Many high-income neighborhoods felt immune to the downturn in the market—feeling that a view or a school district provided an effective barrier. However, the markets across regions and across neighborhoods are too intertwined for this to have been a realistic expectation. Data from the Case-Shiller home price index for Los Angeles has been broken out into price tiers. It is clear that the top end of the market is suffering a decline in prices, falling at a 20 percent year-over-year rate.

This is certainly better than the 40 percent decline seen in lower tier markets—but this has more to do with the fact that prices at the bottom rose more during the bubble years. In short, compression across price levels and now decompression has occurred.

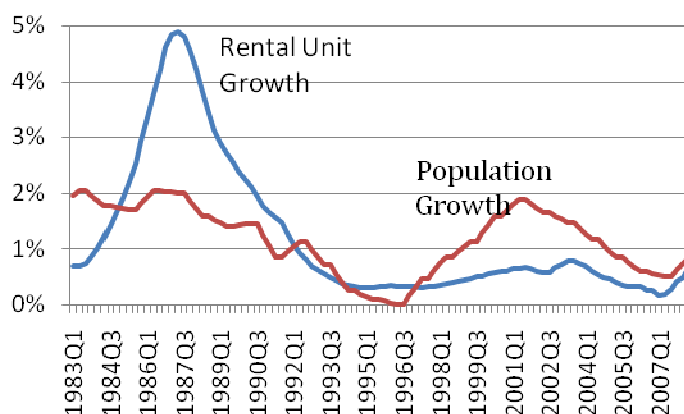
Home prices will continue to fall for some time. The central problem with the housing market has been in the pricing, not in the financing. While the policy debate has centered on the terms of these mortgages, the problem was the amount being paid rather than the structure of the debt. Prices nearly tripled from 1999 to 2007 before they started to fall. A reasonable estimate is that home prices in the state will have to have fallen 40 percent to 45 percent from their peak to fall back in line with income levels. Moreover, prices tend to overshoot on the way down due to the overall weakness of the economy. With this in mind, prices will likely drop 50 percent to 60 percent by the time things bottom out. The good news is that prices have already fallen over 30 percent from their peak. But bear in mind that there will be no rapid recovery. Home prices, once they find bottom, tend to stay there.

### Residential Starts



City	Total Households	Share Overcrowded	Rank
Santa Ana	77,747	30.7%	1
Anaheim	98,736	15.2%	2
Los Angeles	1,273,880	14.2%	3
Long Beach	161,926	12.3%	5
San Bernardino	61,616	11.8%	6
Glendale	69,731	9.3%	7
Riverside	96,151	9.2%	8
San Jose	290,828	8.1%	15
Fresno	153,244	8.1%	16

### Apartment and Population Growth Los Angeles County



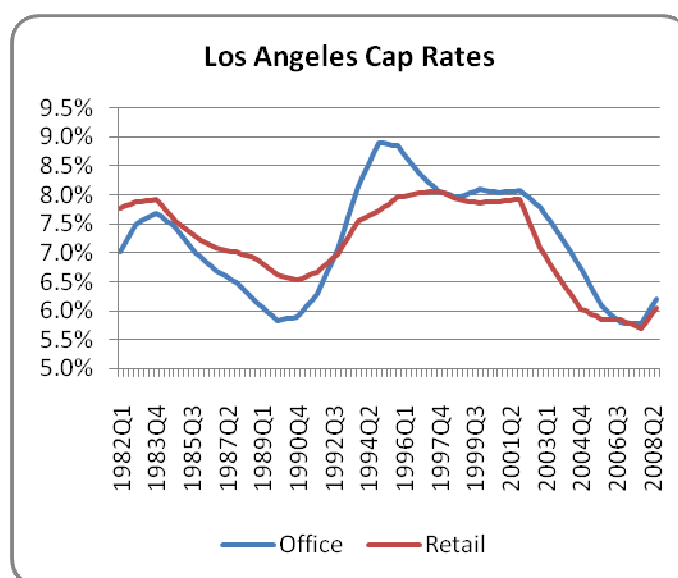
There has been much fretting over the declining values of California real estate. But in many ways the change is for the better. During the bubble years, home prices had risen to levels that were severely affecting the state's ability to be competitive. Companies found it difficult to recruit talent to the state without incorporating special bonuses for housing. More worrisome was the flight of many middle-class families out of the state, as they were unwilling to gamble on purchasing a home with risky financing. Indeed, domestic net migration decreased from a positive 150,000 per year in 2000 to negative 150,000 over the past two years. But for international migration into the state, overall net migration would have been negative. Further, the best way to encourage more homeownership is not through risky mortgages but through low prices. This is the best way to encourage families to own their residences.

Lastly, the construction market will be helped by the fall in prices—the lower they go, the faster foreclosed units will be snapped up, clearing excess inventories and again putting the home construction sector back to work.

Building permits and starts have fallen and were down 50 percent in the third quarter of 2008 from where they were in the third quarter of last year. Starts in the state, running approximately 200,000 per year from 2003 to 2005, have now dropped below 50,000. The figures seem to have stabilized slightly in the fourth quarter, but it remains to be seen when starts may again begin to move back up. Running down the inventory of foreclosed units will help this process.

During the boom years, the massive price increases were often justified by pointing out the lack of housing in the state. Indeed, the pace of building in California increased to a level that was on par with the United States overall (.75 new units per new adult in the population) only at the peak of the frenzy. With permits falling off, it appears that yet again the state will not be building enough units relative to the growth in the population base. This seeming contradiction is explained by the fact that what the state has been building—single-family homes along the eastern edges of the urban coastal region—is not what was needed during the boom. What was and is needed are low-rent apartments to house the state's low-skilled immigrant communities within urban areas. Los Angeles, for example, saw its apartment stock in the 1980s grow by 4 percent to 5 percent per year. Yet at the start of this decade, when population growth was as fast, the stock of rental units grew by less than one percent per year.

The lack of affordable housing has forced many families to live in extremely overcrowded conditions. Indeed, 9 of the 16 worst housing markets for overcrowding (defined as more than one person per room) exist here in the state, including seven of the worst eight cities. In the city of Los Angeles alone, 160,000 households live in such overcrowded conditions. The situation was actually reduced in scope during the boom years through a process of what might be labeled “trickle down” housing. With the market in a tailspin, however, this process has ended and the situation will start to intensify again.



As the state works toward recovery, it should be considering reforms to ensure that the type of units being built better match the needs of the state's population.

There is yet another land crisis unfolding in the state as well. The bubble was not only in residential real estate but also in commercial real estate. In the commercial real estate market, the problem shows up in falling cap rates—the relationship between the prices paid for the buildings and their revenue streams. The same issue—too much credit driving wild speculation—is now causing the commercial real estate market to unwind. Cap rates are rising as a result, even as rents are starting to succumb to the economic pressures and are starting to fall. Commercial property prices—which also add significantly to California's property tax base—will likely fall 30 percent to 35 percent before this portion of the cycle is ended.

The market is not as overbuilt as in previous cycles, and from this perspective we can expect a quick recovery once the problems in the economy are worked through.

## **The Budget Crisis**

As of this writing, there is little sign that the state is any closer to having a realistic budget than it was eight months ago on June 15, 2008, when the constitutional deadline for passing the budget was missed. Things have changed of course and it is now acknowledged that the budget that was eventually passed in late 2008 is coming up woefully short. In the first month of the current fiscal year, revenues were coming in slower than expected and well below cash outflows. A new estimate now puts the two-year deficit (this year plus next) at over \$40 billion. The state has been relying on two stores of cash in order to make ends meet—some raised from the Revenue Anticipation Note released in 2008 and the rest coming from a stock of money raised to pay for infrastructure projects through bonds or special taxes—so called 'borrowable reserves'. Now, even these temporary sources of emergency money are running out, and when they do, the state simply will not have enough cash to pay all its bills. As of this writing, according to the State Controller's office, California's cash will run out as of February 26, 2009.

There are three parts to the state's budget woes: 1) the current cyclical problem having to do with the slowing of the economy and hit to the revenue base; 2) the longer run structural deficit which first showed up in the budget in 2001; and 3) the now apparent long run pension gap. All three will need to be addressed eventually—and the sooner the better. In addition, a crisis is brewing at the local level, which will also need to be addressed.

### *The Cyclical Gap*

Given the dire economic news that has come to light in recent weeks, it should be of little surprise that the state budget is in a precarious position just a few months into the start of the fiscal year. The Department of Finance's monthly bulletin for September, just one quarter into the fiscal year, showed that revenues were already 4.7 percent below the official forecast. September alone came in at almost 9 percent below expectations. Corporate tax revenues were off by the largest proportion, coming in at 19 percent below expectations. Sales and use taxes were off by the most in absolute terms – half of a billion below expectations.

The state did not use highly optimistic estimates in its revenue forecast. Overall they predicted that revenues would rise by 2.8 percent in the current fiscal year, equal to last year's growth rate and well below the 6.4 percent the state has averaged over the past 20 years. This forecast was largely driven by excessively optimistic estimates for corporate taxes and retail, which picked up the slack created elsewhere. Given that corporate

and retail revenues are furthest from what was forecast, there is little wonder that a revenue shortage is on the way and that the Governor has called a special session of the state legislature.

Most of the discussion in Sacramento has revolved around how to deal with the immediate fiscal issues. While some permanent changes have appeared in the various proposals offered by the legislature and governor, most rely on temporary solutions, such as reductions in K-12 educational spending by suspending Proposition 98, suspending cost-of-living adjustments, allowing schools to operate with smaller financial reserves, doing a one-time securitization sale of the state lottery, and so on.

The problem with all these solutions is that they imagine revenues will come storming back after the downturn is finished—which is highly unlikely. Indeed, much as in the early 1990s, the decline in revenues we are currently seeing will likely remain in the revenue base for 3 or 4 years.

How bad is it? Beacon Economics developed a forecast of the three major state revenue sources — sales and use taxes, income taxes, and corporate taxes—for California Forward, a non-partisan think tank. The revenue forecast is based on Beacon Economics' forecast for California. The state forecast calls for unemployment in California to rise to well above 10 percent by the end of 2009 as a result of a severe consumer-led national recession — a downturn on

par with what was experienced in the mid 1970s or early 1980s. This forecast may have seemed overly bearish one year ago, but as the recent data show, it looks to be well in line with the current direction of the economy.

The effects on revenues are indeed grim. We predict that total revenues received from the state's three major sources this fiscal year will decline by a difficult 4.4 percent, with decreases in revenues from sales and corporate taxes offset by a milder downturn in income taxes. This is due to the lagging nature of income taxes. So beware: An even larger decline will strike in the next fiscal year (2009-10) when incomes will be jolted severely downward. Overall, we expect the total revenue from these three sources to drop to just over \$80 billion. Recovery will not occur until 2012 when revenues will surge to above the peak hit in the 2007-08 fiscal year. The implications of this forecast are clear. The current short-term measures being used to close the budget gap will only intensify the problem next year.

If this outlook seems improbable, keep in mind that there is precedent. The income flowing to the state from these three sources declined by 18 percent from fiscal year 2000-01 to 2001-02 and did not recover again until 2005. Proportionally speaking, our forecast is mild given that we predict a much worse overall recession than what occurred in the early 2000s.

California's problems are not just at the state level. Local governments are also being hit hard by this downturn. In the last recession it was mainly business and income taxes that took a large hit. This is because the recession was mainly on the business side of the economy. This time we are experiencing a consumer-led downturn. As such, sales taxes and property transfer taxes will suffer.

As serious is the situation regarding property taxes. Property taxes historically represent one of California's more stable sources of revenue and go largely to the school districts and local government. In fact, over the past 25 years property taxes have never once declined in nominal terms - even throughout the difficult down-

#### Forecast of Personal Income, Sales and Corporate Taxes (Billions)

Fiscal Year	Total Tax Revenues	Total Change from Previous Year
2008-09	87.3	-4.0
2009-10	81.6	-5.7
2010-11	85.0	3.3
2011-12	94.6	9.6

*\*Forecasts by Beacon Economics*

turn of the mid 1990s. Yet, as with so many other things in these turbulent times, this precedent is about to be broken.

As noted earlier, real estate prices in California grew at an unprecedented pace in recent years—a price bubble that dwarfs what happened in the late 1980s. As a result, property taxes saw their own bubble, doubling from \$23 billion in fiscal year 1999-2000 to over \$47 billion in fiscal year 2007-08. Part of this was due to the increase in prices. But the rapid turnover in properties also caused many residential and commercial properties to be reassessed under Proposition 13 rules. Unfortunately the prices were entirely unrealistic given income levels in the state, and as we all now know, residential home prices are falling rapidly. Moreover, the problems in residential real estate have now spread to the commercial side of the business, where things will also take a turn for the worse. The structure of the tax system implies that the assessment rolls always lag the market—hence this downturn has yet to be seen. But it will begin to happen by next year.

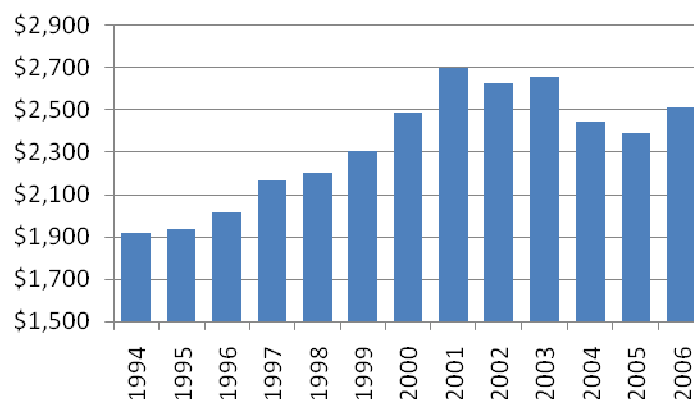
Overall, the state will manage to see a small increase in revenues in the current fiscal year due to a number of factors. First, many owners of recently purchased property don't realize that they are probably over-assessed. Second, commercial real estate is just starting its slide. By the next fiscal year these last bastions will be removed and revenues will start to fall in nominal terms. We expect California's total property tax revenues to fall by over 11 percent before finding a bottom.

Moreover, our estimate may actually understate the decline. Much depends on whether the wave of foreclosed properties begins to slow. If the economy tips into a deeper recession, and slows or stops the recent increase of purchases in home markets, the situation could be even worse.

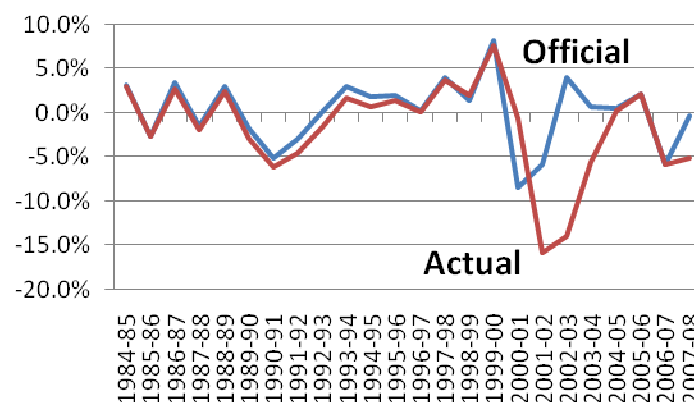
### *The Structural Gap*

The state begins 2009 wrestling a fiscal crisis that began back in the late 1990s. Then-Governor Gray Davis and the state legislature at the time were fortunate to see one of the largest revenue spikes the state has ever experienced in a very short period of time. Despite the fact that economists cautioned that the revenues were driven by the tech bubble and would soon disappear, the temptation was simply too great and the state in-

### Real State Spending per Capita



### State Budget Gap



Data includes both General and Special Fund expenditures

Source: RAND, Bureau of Economic Analysis, Beacon Economics

creased permanent expenditures on the basis of these temporary revenues. Real (inflation adjusted) state spending for both special and general funds rose from \$1,900 per person in the state to \$2,700 per person in the state from 1995 to 2001, an increase of 40 percent, half of which went into place between 1999 and 2001. When the markets collapsed, so did state revenues and the resultant gap was large enough to end in Governor Davis losing his seat in a bitter and historic recall election.

While the official revenue and expenditure numbers show that this budget gap seemingly disappeared by fiscal year 2002-03, that is not what happened. Instead, the state simply borrowed enough cash under the special bond release approved by voters to keep its head above water for a short period of time. Remove the borrowing and the picture was much grimmer. In fact, the gap was in the system until the real estate bubble pushed revenues up to levels that were again high enough to pay for the state's expenditures. The budget problem in California was never actually fixed—it was just covered up until the next bubble came along.

Now, of course, this bubble is popping and soon the state will again be facing its long run deficit problem. In other words, even when we come out of the current downturn, revenues will not return to levels high enough to cover expenditure obligations. This time the state should not be allowed to borrow its way out of the problem. The problem must truly be fixed—by cutting spending permanently, raising taxes, or some combination of the two.

#### *The Long Term Pension Problem*

The third part to the state's current budget woes also grew to epic proportions in the late 1990s – California's massive pension obligation. When the surge in revenues occurred, pressure was applied not just to provide more current spending but also to provide a more lucrative defined benefit pension plan formula. As a result, a bill sponsored by the California Public Employees' Retirement System, or CalPERS, was enacted that boosted state employee pensions substantially, increasing both the share of final salary received per year of work to up to three percent in some cases and increased survivor benefits. The legislation, SB 400, contained a clause allowing local governments to follow suit.

The actuarial rules that govern how these plans are financed (in other words, the level of taxpayer contributions) rely on two numbers—the expected rate of return on existing funds currently, and the current balance of the fund. CalPERS had been earning magnificent returns for years, largely due to the massive bubble in the asset markets. For the last couple years the entire system looked well funded, if not quite over-funded. But these assets were largely overvalued due to the national asset bubble—a process that is now reversing itself. As of this writing, the CalPERS fund is down roughly 40 percent.

Similarly, the long run rate of appreciation CalPERS expects to receive on its assets—currently estimated at 7.75 percent per year—is based roughly on average returns from 1994 to 2007, the same period of time when the massive asset over-appreciation problem started in the U.S. economy. These returns are not likely to be replicated again in the near future. What does this mean? We now have a starting balance of 60 percent of the original amount, and, assuming prudent investing, can anticipate likely annual returns in the range of maybe four to five percent annually for the next decade. Add it up and it's clear that the state's pension program faces the potential of severe underfunding.

*Reform*

As much as California is believed to be a high tax state, it isn't. Taxes and fees collected at the local level as a percent of income were about 16.9 percent in fiscal year 2005-06, slightly more than the U.S. overall (16.3 percent) and ranking 18 out of the 50 states. So why is California so tax averse? Because its tax system is flawed and very unfriendly. The use of high taxes on small tax bases causes conspicuous burdens in those spots. For example, it is estimated that 1% of income tax returns generate nearly 50% of total state income tax revenues. This circumstance also causes heightened cyclicality.

Now, of course, our fiscal problems have even more to do with cyclical expenditures. The state's elected officials have found it politically easy to spend every bit of cash that is available to them, but much harder to cut back when that cash disappears. The whipsaw effect of this has dire implications for the state's long-term prosperity. The boom-bust nature of spending in California tends to penalize one-time expenditures that can be put off (such as investing in roads and bridges), it ruins the state's credit rating, hurts California's educational system by building instability into public education's revenue streams, and in the long run makes the state more reliant on debt to pay its bills – passing the strain on to the next generation.

And California can continue to expect these dramatic swings in revenues largely because of its reliance on a tax base that is very cyclical. Consider income taxes, which are highly progressive. Incomes at the top end of the earnings scale fluctuate dramatically between good times and bad — and hence, the state suffers the same fate in terms of what it collects in income taxes. Similarly, sales taxes in California are limited to goods — and big-ticket items such as autos and furniture are highly cyclical, a volatility that is again passed on to the state. These extreme ups and downs will continue until the state's revenue base is widened to include less cyclical portions of the economy.

California can work its way out of this problem without too much pain if it has the will. The process necessitates tax reform, some spending reforms, and changes to the long run pension system. But for these things to happen requires political reform, reform that will allow and incent elected officials to operate in a more adaptive, flexible, and cooperative manner to help the state move forward.

**Summary**

The current economic situation in the state is grim. But the underlying fundamentals are quite strong. What this adds up to is a steep drop in economic activity in 2009, but a solid recovery in 2010. So hold tight and always keep an eye toward the boom that will occur once the worst of our problems are worked through. In the meantime, the state should be thinking toward the future, which remains bright. As always, when things are darkest, fingers will start to point and scapegoats will be prepared for slaughter. As opposed to trying to find blame regarding the current cycle, efforts should be concentrated on working through the challenges, and new policy should be focused on the endgame.



## *CED Activities in 2008*

In fulfilling its statutory duty to provide economic guidance to the Governor and the Legislature, the CED engages in a variety of functions: Commission members educate themselves; identify and investigate challenges and solutions for economic growth; support, encourage, and promote coordination among relevant entities and organizations; and serve as formal representatives and advocates of the state's agenda for economic development.

In 2008, Lt. Governor John Garamendi, as Chair of the Commission, worked with his fellow commissioners to accomplish these functions and to further two key objectives established in 2007. The first objective is to promote and support a sustainable growth economy in California, and the second is to develop policies and initiatives that foster a diverse, technically proficient state-based workforce. Accordingly, the meetings, events, and activities attended in 2008 by the Lt. Governor and Commissioners focused on these priorities.

### SUSTAINABLE GROWTH

A sustainable growth economy protects both prosperity and health. As the Beacon report demonstrates (see pp. 9-27), California's recent economic growth was in important respects predicated on unsustainable economic behaviors (for example, the overvaluation of real estate and rental markets). The state's current struggle provides a window of opportunity to refocus California's economic development priorities and to redirect our future economy toward genuine sustainability.

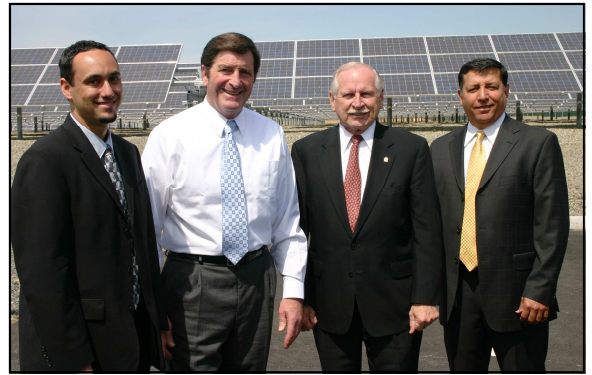
To this end, Chairman Garamendi and CED commissioners pursued a variety of speaking and meeting opportunities with experts in climate change, renewable and alternative energy, and green building practices to investigate and promote sustainable economic development strategies and solutions. Following is a sampling of these events:

- Green California Conference and Expo in Sacramento
- North State Renewable Energy Forum in Chico
- Solar Power International Conference and Expo in San Diego
- Visit to ALZA Corporation's Solar Array in Vacaville
- Tour of Underwriters Laboratories Photovoltaic Center of Excellence in San Jose
- Carbon Forum America in San Francisco

**Cavallo Point Climate Change Roundtable:** The California Roundtable on Improving Environmental Information and Technology to Manage Climate Risk and Opportunity was convened jointly by the Alliance for Earth Observations and the California Chamber of Commerce. Lt. Governor John Garamendi chaired the roundtable, which took place at Cavallo Point in Sausalito, Calif. on November 13, 2008. Participants examined the need to create an economic development initiative to establish California as the leader in providing Earth and environmental-related information products, services, and technologies to better respond to climate change. Following the conference, a wiki site was established, enabling participants to share information and continue the dialogue that was started. The wiki site provides an opportunity for public and private sector entities to come together to share knowledge and explore potential solutions for climate change issues that affect the economy.

### Commissioner Activities

- David Crane, as special advisor to the Governor for jobs and economic growth, focused much of his year on implementing the Governor's low carbon fuel standard and other elements of his agenda to ensure environmental well-being without harming economic growth.
- Commissioner Omar Benjamin, as Port of Oakland executive director, coordinated government, industry and other stakeholders to form a coalition around goods movement needs for northern California. Much of his work is directed toward ensuring a higher level of environmental protection in and around the port area.



ALZA Corporation Solar Array in Vacaville, May 2008. From left: Scott Korney, ALZA Corp.; Lt. Gov. John Garamendi; Len Augustine, Mayor of Vacaville; Henry Esparza, ALZA Corp.

## WORKFORCE DEVELOPMENT

A skilled workforce is critical to California's economic survival in a competitive global marketplace. Many California industries face serious shortages of skilled workers. The CED biotechnology and aerospace advisory committees have stated that many employers in their sectors are unable to find workers with sufficient skills and training. For example, only four percent of California ninth graders go on to complete science or engineering degrees. Additionally, high school dropout rates are growing at a disturbing pace. An estimated 30 percent of California's ninth graders do not complete high school. Studies show that students taking Career and Technical Education (CTE) courses are more likely to graduate from high school, find employment, or enter college. California's government must invest in workforce and education strategies to ensure the state's future competitiveness. The CED strongly supports policies that promote the development of an increasingly skilled and talented workforce in California, and at its May 7 meeting, the Commission approved the following policy statement regarding legislation that expands CTE:

The Commission for Economic Development supports the following public policy measures that promote and expand opportunities for career and technical education in the K-12 and community college system:

- The CED supports programs that link industries with the education community in order to provide relevance and workplace career experience to California high school students.
- The CED supports the approach of 'multiple pathways' in high schools, which provides students with a variety of options for post high school success in careers, post-secondary learning environments or both.
- The CED supports policies that encourage and expand opportunities for high school students to enroll concurrently in career and technical education courses offered at California community colleges.
- The CED supports policies that streamline the credentialing process for technical education to increase the number of CTE teachers.

The Commission voted to join GetREAL, a coalition of business, labor, agriculture, public safety, health care, child advocates and educators who believe California schools should provide a balanced education that includes challenging academic studies and career technical education for "hands-on" learning. The CED also voted to become a supporting organization of the California EDGE Campaign, a diverse coalition of business and labor that supports an integrated education and workforce policy for the state.

The Lt. Governor and commissioners participated in a number of meetings and events focused on improving California's workforce competitiveness. Following is a sampling of these activities.

- Roundtable discussion with Sacramento-based non-profit Linking Education and Economic Development (LEED) to discuss Career and Technical Education policy needs
- California Community Colleges Economic and Workforce Development annual conference and advisory board meeting
- California Labor Federation Economic and Workforce Development Conference
- California EDGE Campaign Salon Policy Events
- California Manufacturers and Technology Association – GetREAL Conference in Sacramento
- Commissioner Virginia Chang Kiraly was named to the Career Technical Education Steering Committee for the Sequoia Union High School District. The Steering Committee's purpose is to provide career technical education opportunities to high schools within the District in partnership with the San Mateo County Community College District and various private sector businesses.



Lt. Gov. John Garamendi with economic development professionals from around the state at the Team California booth at the Solar Power International conference in San Diego, October 2008

## OTHER CED ACTIVITIES AND EVENTS

### Regional Economic Development

The concept of regionalism as it applies to economic development is an important topic in California, where regional economies and the workforces that support them are distinct. The Lt. Governor and commissioners investigated current best practices in developing regional solutions to workforce development and promoted the exchange of ideas about regionalism. The Commission participated in the following events:

- Yuba-Sutter Economic Forecast
- Bay Area Global Forecast
- California Association for Local Economic Development Annual Conference
- Solano County Economic Development Forum
- Bay Area Science and Innovation Consortium (BASIC) Forum on Innovation in San Francisco
- Silicon Valley Leadership Group Public Policy Event
- California Legislative Latino Caucus Economic Development Summit
- Commissioner Hector Barreto, in his role as Chairman of the Latino Coalition, focused on promoting business matchmaking and entrepreneurship, particularly for small business leaders, including minorities, women and veterans. In keynote addresses at major conferences, Mr. Barreto emphasized the benefits of California as a location for business.
- Commissioner Omar Benjamin was the keynote speaker at a San Francisco-East Bay economic development summit.

### Infrastructure

Expanding the use of public-private partnerships (PPP) in infrastructure projects is one of the CED's top policy priorities. The Commission explored this important issue and learned about best practices internationally, particularly in Canada and the United Kingdom. Following are events the Commission participated in:

- Investing in America's Competitiveness, an Infrastructure Public Policy Forum organized by the Bay Area Council and America 2050
- Roundtable forum on PPP in transportation projects convened by the UK Consulate in San Francisco
- PPP forum organized by the Canadian government
- Commissioner David Crane was particularly engaged in this issue, and in his role as a member of the California High Speed Rail Authority, focused on moving the high rail system to implementation. This project serves as a model for a successful public-private partnership. He also worked with the Obama transition team and the Building America's Future coalition to address the nation's infrastructure deficit.

### Goods Movement

The CED recognizes goods movement and logistics as a key economic development priority, and established a goods movement and international trade advisory committee in early 2008.

- The CED was a supporting organization for the State of the Ports in Northern California event organized by the Northern California World Trade Center.
- Commissioner Omar Benjamin participated in the U.S. Marine Administration's Port & Terminal Infrastructure Roundtable in Oakland, which focused on the issues, opportunities, financing and strategies of port and maritime infrastructure within the United States. He also engaged other West Coast ports and states to discuss common goods movement strategies and led a process to select a private partner to implement a public-private partnership initiative to develop a 150-acre marine terminal.

## International Relations

The Commission for Economic Development participated in a number of international trade and protocol events throughout the year, representing the State of California to promote economic development through international trade and investment. Following is a listing of international meetings and events that the Lt. Governor and Commissioners participated in:

- Hong Kong Environment Secretary Edward Yau visit to Solano County Wind Farm
- Hong Kong Economic and Trade Office Chinese New Year Event in San Francisco
- United Kingdom Renewable Energy Conference in San Diego
- World Shipping Summit Conference in Dalian, China (Omar Benjamin)
- Canada Day Public-Private Partnership Infrastructure Roundtable in Sacramento
- Indonesian Consulate Event in San Francisco
- Colombian Trade Minister luncheon in San Francisco
- Philippines Agriculture Secretary luncheon and presentation in San Francisco
- Luncheon Honoring the President of the Basque Country at the Stanford Mansion in Sacramento
- Meeting with Miyagi (Japan) Prefecture Government Representatives in South San Francisco
- Quebec 400<sup>th</sup> anniversary celebration in San Francisco
- Northern California World Trade Center Annual Consular Corps Luncheon in Sacramento
- Bay Area World Trade Center Annual Dinner in Oakland
- California International Trade Partners Meeting in Sacramento
- U.S. – China Technology, Trade and Investment Forum in San Jose
- Taipei Zero Landfill Policy Seminar in Sacramento with the Taipei Economic and Cultural Office
- German American Chamber of Commerce Solar Symposium in San Francisco
- Border Governors Conference in Universal City
- China National Day Celebration in San Francisco
- Taiwan National Day Celebration in San Francisco
- Shanghai-Pudong Party Secretary Government and Business Delegation in San Francisco



Lt. Gov. Garamendi and Basque President Juan Jose Ibarretxe at the State Capitol, February 2008

*In addition, the Lt. Governor and CED staff met with high-level delegations from the following countries and regions:*

Bangladesh	Japan
Basque Country	New Zealand
Canada – British Columbia	Poland
China	Spain
India	Taiwan

Meeting topics included renewable energy, public-private partnerships, international trade and investment opportunities, increased cooperation, government and legislative operations, and economic development.

## QUARTERLY MEETINGS

Pursuant to its governing statute, the Commission convened quarterly meetings to explore relevant business, create a forum for diverse perspectives on aspects of the state's economy, and advance policy positions for consideration by lawmakers. CED meetings are open to the public, and the Commission encourages public participation.



**CED meeting at the State Capitol**

### ***February 13, 2008 — Port of Oakland***

The Commission's first quarterly meeting in 2008 took place at the Port of Oakland on February 13. Lt. Governor John Garamendi presided over the meeting, which focused on the environmental impact of ports and the importance of international trade to the Bay Area and California economies. Key agenda items included:

- Presentations by Sean Randolph, President and CEO of the Bay Area Council Economic Institute, and Richard Sinkoff, acting head of the Port of Oakland's environmental planning department.
- Discussion topics such as shore power for ships, determining principles of sustainability, Proposition 1C infrastructure bond funding, and career and technical education.

The Commissioners received and approved nominees to the advisory committees and named the respective chair of each committee.



**Commissioners David Crane, Virginia Chang Kiraly and Assembly Member Lori Saldaña**

### ***May 7, 2008 — The Boeing Company, El Segundo***

The CED's second quarterly meeting took place at The Boeing Company in El Segundo. The Commission focused on challenges facing the aerospace industry and career and technical education. Key points of the meeting included:

- Introduction of a set of legislative initiatives focused on career and technical education and renewable energy. The Commission opted to support a general statement on career and technical education instead of supporting specific legislation. The statement was subsequently communicated to the Legislature and the Governor. (See p. 29)
- The CED voted to join the GetREAL campaign and become a supporting member of the California EDGE campaign, two organizations dedicated to promoting career and technical education.
- Staff presented and the Commission approved additional nominees to the advisory committees; the Advisory Committee chairs provided updates with respect to committee activities.
- The Aerospace Advisory Committee gave an in-depth presentation on the importance of the industry to the state's economy. Committee members offered recommendations that state officials and policy makers can implement in support of the industry.



Chuck Reed, Mayor of San Jose, and Tom McCalmont, President and CEO of ReGrid Power, provide testimony at the CED's September meeting.

### **September 15, 2008 — San Jose, City Hall**

Renewable energy and venture capital were the topics for the CED's September 15 quarterly meeting in San Jose. Guest speakers provided presentations that set the groundwork for a discussion on reducing barriers to growth of the clean tech industry. Meeting highlights included:

- A presentation by Andrew Chung, principal with Lightspeed Venture Partners. Mr. Chung offered an overview of venture capital investment in the clean tech sector and discussed what the industry sector means to California.
- A presentation by Tom McCalmont, president and CEO of ReGrid Power, a solar electricity company in Campbell. Mr. McCalmont is also chair of SolarTech, an initiative of the Silicon Valley Leadership Group. Mr. McCalmont provided an overview of the solar power industry in California and discussed the need for workforce development programs to meet the industry's future requirements.
- A presentation by San Jose Mayor Chuck Reed on the Green Vision Program his city adopted in 2007. Mayor Reed discussed the city's goals to create 25,000 new clean tech jobs while reducing electricity consumption by 50 percent.
- The CED voted to establish an advisory committee on the entertainment and tourism industries and appointed Commissioner Demos Vardiabasis to chair the committee.



Commissioners hear testimony from Aerospace Advisory Committee chair Andrea Seastrand at the December 9, 2008 quarterly meeting in Sacramento. From left: Assembly Member Lori Saldaña, Vice Chair Tom Nassif, Lt. Gov. John Garamendi, Executive Director Richard Baum, and Forescee Hogan-Rowles.

### **December 9, 2008 — State Capitol, Sacramento**

The final CED meeting of the year took place at the State Capitol in Sacramento. The Commission received policy recommendations from four of its five advisory committees (see Appendix I). Each Advisory Committee presented its recommendations to the Commissioners for their consideration. Specifically:

- Andrea Seastrand, chair of the Aerospace Advisory Committee, provided a presentation outlining a number of policy recommendations developed by the committee.
- Commissioners and committee chairs Tom Nassif, Virginia Chang Kiraly and Omar Benjamin presented sets of recommendations provided by the agriculture, biotechnology and goods movement committees, respectively.
- CED consultant Leslie Tamminen spoke on behalf of Commissioner Demos Vardiabasis, chair of the Entertainment and Tourism Committee, to provide an update on the committee's activities.



## *Advisory Committees*

As required by statute, the Commission has established advisory committees to provide expertise on key industries and to make recommendations to the Commission with the goal of strengthening California's economy. The statute requires the Commission to establish committees representing the following industries: aerospace, manufacturing, maritime, tourism and world trade. In addition, the Commission may create other advisory committees as needed to help carry out its responsibilities. The Commission has established aerospace, agriculture, biotechnology, goods movement/international trade and entertainment/tourism advisory committees, each reflecting an important segment of the California economy.

The Advisory Committees convened over the course of the year and discussed challenges specific to their industry areas. Committee members developed sets of policy recommendations that were delivered to the CED at its December 2008 quarterly meeting. The Commission developed from these policy statements a set of six overarching recommendations (see p. 6).

Following is a list of Advisory Committee members and chairpersons.

The **Aerospace Advisory Committee** is chaired by Andrea Seastrand, Executive Director of the California Space Authority. Members are:

- John Daegele, Vice President of Production and Supply Chain for Northrop Grumman Space Technology
- Celeste Ford, CEO of Stellar Solutions
- Kellie Johnson, President and CEO, ACE Clearwater Enterprises
- Brig. Gen. Len Kwiatkowski, Vice President of the Military Space Program at Lockheed Martin
- Andrea Seastrand, Executive Director of the California Space Authority
- Mark Sirangelo, CEO of SpaceDev
- Susan Sloan, Vice President of Mission Assurance for Raytheon Company
- Gary Toyama, Vice President, Southern CA Region, Boeing Space and Intelligence Systems, Boeing Integrated Defense Systems

The **Agriculture Advisory Committee** is chaired by CED vice chair Tom Nassif, President and CEO of the Western Growers Association. Members are:

- Chuck Ahlem, Founding Partner and Co-Owner, Hilmar Cheese
- Roger Baccigaluppi, President, RB International
- Michael Barr, President/CEO, CA Agricultural Leadership Foundation
- Barry Bedwell, President, CA Grape and Fruit Tree League
- Michael Bradley, CA Farm Bureau Federation
- Steven Burns, Principal, O'Donnell Lane Agricultural Consulting
- Mark Chandler, Executive Director, Lodi Woodbridge Wine Grape Commission
- Richard Engel, Director of College Relations, College of Agricultural and Environmental Sciences, UC Davis
- Bonnie Fernandez, Executive Director, Center for Produce Safety
- Bob Gallo, Co-President, Gallo Winery
- Henry Giacomini, Second Vice President, Shasta County Farm Bureau

- Bob Gray, CEO, Duda Farms
- John Harris, Owner, Harris Farms
- Dr. Joe Jen, Senior Advisor to the President, Cal Poly San Luis Obispo
- Giev Kashkooli, Political Affairs Director, United Farm Workers
- John Lacey, Member, Lacey Livestock Partnership, Lacey Ranches
- Ron Lind, President, United Farm and Commercial Workers Local 5
- William (Bill) J. Lyons Jr., CEO, Mape's Ranch
- Dan Macon, Owner, Flying Mule Farm
- Bill Mattos, President, CA Poultry Federation
- Mark Murai, California Strawberry Commission
- Joel Nelsen, President, CA Citrus Mutual
- Stephen Patricio, Westside Produce
- Len Richardson, Editor, California Farmer
- Richard Rominger, Farmer, Winters, CA
- Karen Ross, Executive Director, CA Wine Grape Growers Association
- Dr. Andrew Thulin, Department Head, Cal Poly San Luis Obispo
- Mike Wade, Executive Director, CA Farm Water Coalition
- Paul Wenger, First Vice President, CA Farm Bureau Federation
- Scott Wickstrom, Co-Owner, Wickstrom Dairies
- Chris Zanobini, Executive Director, CA Pear Advisory Board

The **Biotechnology Advisory Committee** is chaired by CED member Virginia Chang Kiraly. Members are:

- Joan Chu, Partner, The Monitor Group
- Carl Engle, Partner, The Monitor Group
- Matthew Gardner, President and CEO, BayBio
- Terese Ghio, VP Governmental Affairs, Arena Pharmaceuticals
- David Gollaher, President and CEO, California Healthcare Institute
- Dr. Steve Heinemann, Professor, Salk Institute for Biological Sciences
- David Mack, Director, Alta Partners
- Susan Molineaux, President and CEO, Proteolix
- Joe Panetta, President and CEO, BIOCUM
- Evan Siegel, Chairman and CEO, Ground Zero

The **Goods Movement/International Trade Advisory Committee** is chaired by CED member Omar Benjamin, executive director of the Port of Oakland. Members are:

- Bill Barkett, President and CEO, Merjan Financial
- John Bowe, President, American President Lines (APL)
- Steve Callaway, Sr. Vice President, AMB Corporation
- Jose Duenas, President and CEO, Bay Area World Trade Center and East Bay Center for International Trade Development
- William Fong, Executive Vice President, East West Bank
- Dr. Geraldine Knatz, Executive Director, Port of Los Angeles
- Chuck Mack, Western Region Vice President, Teamsters Union
- Alan McCorkle, Senior Vice President, APM Terminals
- Scott Moore, Vice President of Public Affairs, Union Pacific Railroad
- Joseph Radisich, International Vice President, International Longshore and Warehouse Union
- Rani Yadav-Ranjan, Founder and CEO, Navigator Technology

The **Entertainment/Tourism Advisory Committee** is chaired by CED member Demos Vardiabasis, Ph.D., professor of economics at Pepperdine University. Members are:

- Maren Christensen, Executive Vice President and General Counsel, Universal Studios
- John Davis, Chairman, Davis Entertainment
- Chris Essel, Member, California Film Commission
- Frances Fisher, Member, Screen Actors Guild National Board
- Dan Gordon, Co-Founder, Gordon Biersch Brewing Company
- Matthew J. Hart, Past President, Hilton Hotels Group
- Brad Krevoy, Independent Producer
- Paul Lam, President and CEO, Peregrine Travel Group
- David Peckinpugh, President and CEO, San Diego Convention and Visitors Bureau
- Lisa Rawlins, Senior Vice President, Studio and Production Affairs, Warner Bros. Entertainment Inc.
- Bob Roberts, Executive Director, California Ski Industry Association
- Scott Rosenfelt, Independent Producer
- Michael Rubel, General Counsel, Creative Artists Agency
- Rob Senn, President, The CONVERGITAL Group

Advisory Committee members serve on a voluntary basis and perform their duties at no cost to the state.



**CED Agriculture Advisory Committee meeting in Sacramento, March 2008.**  
From left: CED Vice Chair Tom Nassif, USDA Secretary Ed Schafer, Lt. Gov. John Garamendi, CDFA Secretary A.G. Kawamura



## APPENDIX I

### Advisory Committee Recommendations<sup>1</sup>

#### AEROSPACE

The aerospace advisory committee is led by Andrea Seastrand, executive director of the California Space Authority. California is a global aerospace leader. Thirty-one percent of the U.S. space industry is in California. The aerospace industry contributes more than \$53 billion and 250,000 jobs to California's economy. Accordingly, it is crucial that California take steps to remain competitive in order to retain this key industry.

The Advisory Committee presented the following set of recommendations to the CED.

#### 1) Recognize and Celebrate California Aerospace Industry by:

- A. Highlighting air/space topics in speeches and reports presented by the Governor and Lt. Gov.
- B. Celebrating corporate, government, and entrepreneurial "firsts"
- C. Showcasing California aerospace infrastructure
- D. Championing nationally and internationally the value of California as a premier center for aerospace suppliers and commercial, civil and military aerospace
- E. Celebrating high-visibility achievements of California's NASA centers
- F. Seeking ongoing state understanding of the air and space industry's impact on the California economy and synergy with the state's other key industries (i.e. agriculture, biotech)

#### 2) Support Air/Space Companies and Infrastructure by:

- A. Establishing executive-level linkages with key aerospace corporations and high-visibility entrepreneurs and hosting an annual status meeting
- B. Creating executive level linkages with military base commanders
- C. Re-establishing the Office of Military and Aerospace Support (OMAS) when the state budget allows to ensure links with base communities and adopting recommendations in OMAS report
- D. Providing executive office linkage and support for key aerospace companies, mission attraction and retention, ensuring response critical to retaining Center of Excellence status
- E. Building and supporting California aerospace champions within the Legislature and the Congressional delegation
- F. Assisting in site comparisons and promoting alternate California sites for existing companies

#### 3) Leverage Statewide Air/Space Technologies to Address California Priorities by:

- A. Exploring the utility of satellite services, small satellites and satellite networks to address state and regulatory challenges
- B. Assisting key California industries in reducing costs and improving performance by introducing aerospace solutions

<sup>1</sup> These committee recommendations were not individually adopted by the CED, nor do they all reflect the individual views of the Chair or the commissioners. However, the Commission's six overarching policy recommendations identify a set of common themes based on ideas included in the committee recommendations.

- C. Providing leadership on key national challenges such as climate change, environmental management, agricultural yield, energy independence, etc. by exploring the capabilities of the California aerospace industry to address these issues

#### 4) Ensure Global Innovation Edge through California Aerospace Retention and Growth by:

- A. Focusing statewide economic development strategy on the creation of a globally competitive entrepreneurial, knowledge-based economy, garnering input of the CED's Advisory Committees, and leveraging the Innovation-Driven Economic Development Model created for the state with U.S. Dept. of Labor funding
- B. Ensuring statewide economic development innovation infrastructure by linking California's diverse corporate R&D, entrepreneurial, academic and federal assets
- C. Aligning Science, Technology, Engineering and Math (STEM) education at all educational levels and with industry needs to develop a high-tech professional workforce; initiating STEM strategy in partnership with industry, building on the foundation of the STEM Collaborative Action Plan.
- D. Ensuring multiple student choices in reaching a high-tech workforce, including Career Technical Education (CTE) options providing certificates and/or community college technical degrees enabling high school graduates and others to earn a good family wage
- E. Measuring economic development success by the number of high-tech, family-wage jobs created rather than the low-paying, low skill jobs generated; considering use of Pollack Model as the statewide standard to measure positive impact of California firms to prove manufacturing value
- F. Exploring ways to reduce business and aerospace operating costs in California, prioritizing re-institution of California R&D and production tax incentives, and refining the permit process
- G. Providing incentives for California companies seeking expansion opportunities to consider California's economically distressed areas instead of other states
- H. Creating a center for air/space technology and entrepreneurship, ensuring linkage with education
- I. Considering development of an aero/space technology grant program for innovators
- J. Supporting the development and leverage of institutes featuring aerospace technology development
- K. Supporting Mojave Air and Space Port, the country's first inland spaceport, for next generation spaceflight
- L. Continuing to provide state leadership on the reform of U.S. export licensing regulations

## AGRICULTURE

The Agriculture Advisory Committee is chaired by CED vice-chair Tom Nassif and its membership includes leaders from California's top agricultural sectors. California is the leading agricultural producing state in the country and one of the leading agricultural producers in the world. Representing nearly 13 percent of total agricultural production in the United States and valued at more than \$36.5 billion dollars, California agriculture is worth as much as the next two agricultural producing states combined (Texas and Iowa).

In order to help California's agriculture industry grow and remain competitive, the Agricultural Advisory Committee presented the following recommendations to the Commission.

#### 1) Immigration

- A. Seek the public support of Governor Arnold Schwarzenegger, Lt. Governor John Garamendi and the California Congressional Delegation for immigration reform for agriculture. Specifically, for support of federal legislation, including the Agricultural Job Opportunities, Benefits and Security Act (AgJOBS) and the Emergency Agricultural Relief Act (EARA).
- B. Support federal comprehensive immigration reform over federal agency or individual state solutions to the immigration problem.

**2) Environmental Regulation**

- A. Support a policy that requires all environmental regulations that impact agriculture to be based on the latest and most relevant research in the areas of science and technology, conducted by credible third party sources and peer-reviewed by academia.
- B. Support the creation of a mechanism to coordinate the legislative and regulatory activities of the administration, legislature, and various regulatory bodies (e.g. air and water quality boards).
- C. Support a policy that requires an economic impact study (to be paid for by the interested regulatory body) be conducted for all proposed environmental regulations that affect agriculture.
- D. Support the creation of an advisory committee, appointed by the Governor and representatives of key agricultural stakeholders, to review and provide input on all proposed environmental regulations that affect agriculture.

**3) Communications and Outreach**

- A. Encourage the Administration to fund a media campaign aimed at increasing the public awareness of where their food comes from, the need for a secure and stable domestic food supply, and the role of agriculture in protecting open space and promoting environmental preservation in California.

**4) Water**

- A. Support the development of additional water supplies through the construction of Delta conveyance and surface and groundwater storage facilities.
- B. Support reform of the federal and state Endangered Species Act to provide judges with the ability to balance environmental regulations with the water needs of California consumers, both rural and urban, taking economic impacts into consideration.
- C. Support public policy measures that promote and expand urban and agricultural water use efficiency programs.
- D. Support current outreach programs aimed at educating policy makers and the general public about water conservation efforts of California agriculture.

**5) Energy**

- A. Support the expansion of hydroelectric power and the development of alternative clean energy sources, including but not limited to nuclear power and liquid natural gas.

**BIOTECHNOLOGY**

CED Commissioner Virginia Chang Kiraly chairs the Biotechnology Advisory Committee. California is home to 40 percent of the world's life sciences companies, and California firms receive about 50 percent of all biotech-related venture capital. In 2006, the life sciences industry generated \$63 billion in California. The industry represents approximately 258,000 jobs in the state, with an average wage of more than \$80,000.

The Committee presented the following recommendations to the CED.

**1) Corporate Tax Treatment**

*Background:* Taxation of land, infrastructure, equipment and head count has become a motivating factor for many companies to abandon California for states that offer tax incentives to stimulate job creation, cite new firms, employ local talent and build intellectual capital.

*Recommendations:*

- A. Re-evaluate the policy assumption that tax incentives are unnecessary for stimulating economic growth.
- B. The Legislature should consider providing subsidies or other tax and financial incentives for businesses to move to, and stay in, California.
- C. Restore Net Operating Loss (NOL) recognition and carryovers to 100 percent.

- D. Reinstate a manufacturers' investment credit.
- E. Continue the R&D tax credit.
- F. Tax burden should be placed on companies that are more established and profitable.
  - i. Incentivize R&D firms. If they become profitable, they can be taxed at that time allowing funds to go back into state and local government treasuries as payback for benefit given to them to establish and grow.

## 2) Need to Invest in a Skilled and Well-Educated Workforce to Meet Industry's Needs

*Background:* Education needs to be reinstated as a key concern for the state in order to attract and produce an educated and skilled workforce and to encourage them to remain in the state for a good portion, or all of, their careers.

*Recommendations:*

- A. The state should develop and adopt an action plan that continues funding and advances education for the life sciences sector.
- B. Focus should be on preparing adequate human capital, tax and investment incentives using models from other states and specific infrastructure improvements.
- C. UC system needs to develop a long-term strategic plan to better respond to the state's workforce needs in biotech and to remain relevant.
- D. Connect education curriculum with workforce demands, encouraging internships, practical placement approaches and industry/education/government cooperation.

## 3) Reduce Regulatory Costs and Barriers

*Recommendations:*

- A. Reform process of electronic submission of regulatory forms.
- B. Federal level: the NIH regulatory affairs program needs more trained professionals who will strengthen negotiation, strategic planning, and technology integration.
- C. The regulatory process should drive the positioning and packaging of innovative data throughout the product life cycle, publicly recognizing its importance.
- D. California should encourage certificate programs in regulatory affairs, with associated cooperative programs to drive the practical integration of the technical disciplines with the regulatory process.

## 4) Focus on Public-Private Collaboration

*Recommendations:*

- A. The state should create a permanent advisory group to represent the biotech sector's unified needs.
- B. Increase communication between trade associations, industry groups, and state representatives to foster ongoing dialogue and incentives for the biosciences industry.
- C. Encourage entrepreneurial spirit by creating a Governor's "Entrepreneur of the Year" award for the life sciences industry.

## 5) Formally Adopt a Statewide Comprehensive Biotech Strategy

*Background:* California is the only state without a biotech strategy

*Recommendations:*

- A. State should adopt the biotech strategy plan that the industry has created. (*Taking Action for Tomorrow: California Life Sciences Action Plan*)
- B. The state needs to acknowledge the importance of the biotech sector beyond simply adopting a formal policy.
  - i. The state should consider prioritizing future available funds to encourage and nurture the biotech sector.
- C. Immediately implement action plan directives that don't involve a cost to the state:
  - i. Zoning biotech regions. This could be tied to general planning standards without incurring new administrative costs.
  - ii. Expand uses of the California Infrastructure and Economic Development Bank,

- including the widening of definitions and expansion of current projects.
- iii. Harmonize some state and federal processes, making them electronic and simultaneous. This is a reformer's opportunity: the cost of conducting the harmonization discussion administratively with the federal government is more than made up for in the savings in redundant regulatory bodies.
- iv. Develop a Science fellows program for the Legislature. This is going to be paid for in part by the Gordon and Betty Moore Foundation. Moore, the California Council for Science and Technology (CCST), and others will try to raise the balance of funds from the private sector.
- v. Create a new Science and Technology Trust. This is intended to be a re-organization of state assets without new cost.

## 6) University of California's Technology Transfer system needs improvement

*Background:* The UC System under-appreciates the amount of capital and risk involved in translating basic research discoveries to the marketplace and hence overvalues its technology. The deadlock between the biotech industry and the university system causes lost time and lost opportunities in technological advancement.

*Recommendations:*

- A. Increase funding to the UC Discovery Grants Program.
- B. Work closely with the regulatory initiatives cited earlier to familiarize the UC technology transfer system with the realistic needs of the biotechnology product development life cycle.

## GOODS MOVEMENT/INTERNATIONAL TRADE

California ports handle more than one-fifth of all U.S. international trade. In 2007, California companies exported nearly \$135 billion worth of manufactured goods to 231 countries. The goods movement infrastructure in California is a crucial component of our state's economy. Environmental considerations are of utmost importance for California's ports.

CED Commissioner and Port of Oakland executive director Omar Benjamin chairs the Advisory Committee. The Committee presented the following recommendations to the CED.

### 1) Value of Goods Movement to the State

- A. The CED should communicate to the Legislature and the Governor the economic impact of efficient goods movement on California's economy.
  - i. California exported more than \$134 billion worth of goods in 2007.
  - ii. It has been estimated that goods movement congestion is responsible for \$12-\$14 billion in lost productivity per year in Orange County alone.
  - iii. International trade and goods movement/logistics related jobs are well-paying. Almost 700,000 jobs in California are directly related to exporting.
- B. The CED should highlight the economic benefits of building major infrastructure projects – both jobs and long term economic impact. Projects have been slowed by protracted environmental and legal challenges, causing our ports to fall behind their national and international competitors.

### 2) California/West Coast/Federal Cooperation

West Coast:

- A. The State should work closely with Washington and Oregon on West Coast-specific transportation and goods movement issues, including freight movement and emissions.
  - i. For example: California should actively involve itself in the Pacific Coast Collaborative Commission, a regional cooperative program involving Alaska, British Columbia, Washington, Oregon and California, and the West Coast Corridor Coalition, an organization

- that focuses on transportation-specific initiatives in California, Oregon, Washington and Alaska.
- B. California should work with the other West Coast states to promote freight infrastructure funding in the next federal transportation reauthorization bill (TEA) and ensure that funds return to the West Coast for vital port projects.
  - C. Support Freight Infrastructure Investment Tax Credits and/or collect an incremental percentage of customs revenue.
  - D. The CED should work with the Governor's office and BT&H to convene a Goods Movement and Infrastructure Conference for the West Coast.

Topics to be discussed include:

- West Coast Ports' Role
- West Coast States' Role
- Environment
- Labor
- Infrastructure/facilities
- Funding
- Policy
- Security

California/Federal Cooperation:

- E. The State should promote intrastate cooperation and coordination with respect to federal requests.
- F. TEA Reauthorization: There is a need for a coordinated statewide approach to the next federal bill. There must be strong leadership from California to coordinate local cities and ports, and also cooperation among the state's elected officials.
- G. Federal Stimulus Package: California should coordinate its state and federal (Congressional) efforts to ensure maximum funds return to the state from the expected stimulus package. These funds can be used to support much-needed infrastructure projects.

### 3) Expanding International Trade

- A. The Legislature should support the Business, Transportation and Housing Agency's statewide international trade and investment strategy and encourage the implementation of the strategy.
- B. California state government needs to communicate its support to the Federal government for fair and beneficial free trade agreements.
  - i. The pending South Korea Free Trade Agreement (FTA) will have a major positive impact in California, as South Korea is one of the state's top 5 export markets.
- C. The State should encourage trade and business partnerships between California and Latin American trade partners, particularly Brazil, Mexico and other key and growing markets.

### 4) Public-Private Partnerships (PPP)

- A. The State should expand its use of PPP to meet California's infrastructure needs by, among other things, defining its requirements and goals for developing and implementing such projects and identifying the job-creation aspects of Public Private Partnerships.
- B. The Legislature should support the Governor's PPP initiative.
- C. California should advocate for increased funding out of the TEA bill for PPP initiatives.

### 5) Environmental Initiatives to Mitigate Local Impacts

- A. The CED should highlight the need for sustainable, responsible economic growth and the need to expedite air quality programs and funding.
- B. The State should strategically utilize Proposition 1B funding for emissions reduction.

- i. Request that the CARB requirement to match the \$1 billion for air quality projects be eliminated since this requirement is not in the legislation and due to the economic condition of the State, we need to move these non-revenue producing projects forward. These projects will create jobs and clean the environment and could be underway quickly.
- C. The Legislature should support the Governor's efforts to streamline CEQA for infrastructure projects that are nearly ready to go.

## ENTERTAINMENT/TOURISM

The Entertainment and Tourism Advisory Committee was appointed at the close of 2008, and thus did not have sufficient time to produce specific recommendations for this report. As of the date of this report, the Entertainment and Tourism Advisory Committee has entered into a public-private partnership with Pepperdine University to produce an economic study about feature film production revenue in various geographic regions of the state. The report will compile currently existing information, as well as provide new information and analysis. The results and findings will be presented to the Commission. The Commission will make the report and findings and the Advisory Committee members available to the Legislature to provide further information and address any issues raised by specific recommendations.

## APPENDIX II

### Commissioner Biographies

#### **Lieutenant Governor John Garamendi, Chair**

Lt. Governor Garamendi served in the State Assembly from 1974-1976 and in the State Senate from 1976-1990, including a term as Senate Majority Leader. He became California's first elected Insurance Commissioner, serving from 1991-1995, then was appointed by President Bill Clinton as the Deputy Secretary of the U.S. Department of the Interior from 1995-1998. He returned to the California Department of Insurance in 2003, after being elected as Insurance Commissioner for a second time. Garamendi was elected as Lieutenant Governor in November 2006.

#### **Mr. Hector Barreto**

Mr. Barreto, of San Juan Capistrano, has served as president for Barreto Associates and chair for the Latino Coalition since 2006. From 2001 to 2006, he served as the administrator for the U.S. Small Business Administration. Previously, Mr. Barreto was president and owner of Barreto Financial Services from 1995 to 2001 and held the same position for Barreto Insurance and Financial Services from 1986 to 2001. He is past chair for the Latin Business Association and past vice chair for the U.S. Hispanic Chamber of Commerce.

#### **Mr. Omar Benjamin**

Mr. Benjamin, of Oakland, has served as executive director for the Port of Oakland since February 2007. He previously was deputy executive director and director of commercial real estate for the Port of Oakland from 1997 to 2007. Prior to that, Mr. Benjamin served as chief operating officer for the real estate development company Al Anwa USA from 1995 to 1996. He is a member of the Oakland Economic Development Corporation.

#### **Ms. Virginia Chang Kiraly**

Ms. Chang Kiraly, of Menlo Park, has owned Knitting Girls since 2004. She previously was a senior director for the Nasdaq Stock Market from 2000 to 2002 and an investment executive for Paine Webber from 1995 to 2000. Prior to that, Ms. Chang Kiraly was a sales associate for institutional fixed income sales and trading for Bear, Stearns & Company from 1993 to 1994 and an account executive for Alex Brown & Sons from 1991 to 1993. She is a member of the Asia America Multitechnology Association (AAMA) and Las Lomas Education Foundation. She is also past president of the Las Lomas PTA Executive Board.

#### **Mr. David Crane**

Mr. Crane, of San Francisco, has served as special advisor to the Governor for jobs and economic growth since 2004. Before joining the Administration, he was a partner with Babcock & Brown, a financial services firm, from 1979 to 2003. Mr. Crane is a member of the High Speed Rail Authority and is an advisory trustee for Environmental Defense.

#### **Mr. Daniel Curtin**

Mr. Curtin, of Sacramento, has served as director for the California Conference of Carpenters since 2001 and previously held the same position from 1992 to 1999. From 1999 to 2001, he served as chief deputy director for the Department of Industrial Relations. Prior to that, Mr. Curtin was a legislative advocate for the California Conference of Carpenters from 1987 to 1992.

#### **Senator Bob Dutton**

Sen. Dutton was elected to represent the 31st Senate District in November 2004. He was sworn into office on Dec. 6, 2004 after serving two years in the California State Assembly representing the 63rd District.

Senator Dutton received nearly 60 percent of the vote in the sprawling 31st Senate District that includes portions of Riverside and San Bernardino Counties.

#### **Ms. Forescee Hogan-Rowles**

Ms. Hogan-Rowles, of Los Angeles, has served as president and chief executive officer for the Community Financial Resource Center since 1995. She previously was executive director for Westview Economic Development Strategies from 1993 to 1995 and held the same position for the Coalition for Women's Economic Development (CWED) from 1990 to 1993. Ms. Hogan-Rowles was an instructor at Brooks College from 1985 to 1990 and owned Forescee-M & Company, also known as Flips, from 1981 to 1985. She is a member of the Opportunity Finance Network and the California Association of Microenterprise Opportunity.

#### **Senator Michael Machado**

In November 2004, Machado was re-elected to represent the Fifth Senate District, which includes the cities of Tracy, Manteca and Stockton in San Joaquin County; Suisun City, Fairfield, Dixon and Vacaville in Solano County; Davis, West Sacramento, Winters and Woodland in Yolo County; as well as Walnut Grove and a portion of Elk Grove in Sacramento County. Prior to his election to the Senate, he represented the 17th Assembly District from 1994 to 2000. Machado chaired the Senate Committee on Revenue and Taxation and the Subcommittee on Delta Resources. He also served on the Senate Committees on Budget and Fiscal Review, Local Government, Natural Resources and Water, and Transportation and Housing. Additionally, he was a member of the Select Committees on the California Correctional System.

#### **Ambassador Thomas Nassif, Vice Chair**

Mr. Nassif, of Irvine, has served as president and chief executive officer for the Western Growers Association since 2002. From 2001 to 2002, he was founding and managing partner for Aequitas International Consulting. Previously, Mr. Nassif served as president and chief executive officer for the Los Alamos Land Company from 1994 to 2001 and chair for Gulf Interstate Engineering from 1988 to 1994. Prior to that, he served as U.S. Ambassador to the Kingdom of Morocco from 1985 to 1988. Mr. Nassif served in the U.S. Army from 1961 to 1969.

#### **Assemblymember Lori Saldaña**

Lori Saldaña was re-elected in 2006 to a second term in the California Legislature, representing the state's 76th Assembly District. Her district consists of the central and northern portion of San Diego, including the communities of Clairemont, Bay Park, Pacific Beach, Ocean Beach, Point Loma, Tierra Santa, Serra Mesa, Hillcrest, University Heights, North Park, South Park, Linda Vista, Mission Valley, City Heights, Old Town, Normal Heights, Mission Hills and Downtown San Diego. Assemblymember Saldaña serves as the Speaker Pro Tem. Additional committee assignments include Housing and Community Development, Elections and Redistricting, Revenue and Taxation, and Veterans Affairs Committees.

#### **Mr. Aubry Stone**

Mr. Stone, of Sacramento, has served as president and chief executive officer for the California Black Chamber of Commerce since 1994. Mr. Stone previously was a branch manager for Metropolitan Life from 1985 to 1994. He also served in the U.S. Air Force from 1962 to 1984 before retiring as superintendent of operations. Mr. Stone is a past member of the Sacramento Metro Chamber, Mayor's Economic Development Council and the Capitol Area Development Authority Board of Directors.

#### **Ms. Ashley Swearengin**

Ms. Swearengin, of Fresno, was elected Mayor of the city of Fresno in November 2008. She served as executive director for the Office of Community and Economic Development at California State University, Fresno from 2000-2008. Ms. Swearengin has also served as chief operating officer of the Fresno Regional Jobs Initiative since 2003 and lead executive for the California Partnership for the San Joaquin Valley since 2006. Previously, she was director of the Central Valley Business Incubator from 1993 to 2000.

Ms. Swearengin is a board member of the Fresno West Coalition for Economic Development Community Development Corporation, the Fresno Citizens for Good Government Board of Directors and the Fresno Business Council.

**Mr. Demos Vardiabasis, Ph.D.**

Professor Vardiabasis, of Downey, has served as an independent consultant for several companies including Baxter Healthcare, Northwest Airlines, ICTS Europe, Edison Utilities and Northgate Supermarkets since 1988. He has been a professor of economics at Pepperdine University since 1983 and is the chair of the committee that oversees the Presidential Key Executive MBA Program at Pepperdine University's Graziadio School of Business and Management. From 1995 to 1997, Prof. Vardiabasis served as chair and chief executive officer for IQ Now, which he also founded. Previously, he was an assistant professor at California State University, Dominguez Hills from 1981 to 1983.

**Senator Leland Yee, Ph.D.**

After serving four years in the California State Assembly, Yee was elected to the State Senate in November 2006. Representing the eighth district, which includes San Francisco and San Mateo Counties, Senator Yee is the first Chinese American ever elected to the California State Senate and first Asian American elected to the Legislature's upper house in forty years. Senator Yee is also a member of the Senate Democratic Leadership as the Assistant President pro Tem.

**Commission Staff**

**Mr. Richard D. Baum, Executive Director**

Mr. Baum, of Mill Valley, served most recently as chief deputy insurance commissioner for the Department of Insurance. Previously, he was president and chief executive officer for the Care West Insurance Company from 1995 to 2003. Prior to that, Mr. Baum worked for the Department of Insurance from 1990 to 1995 holding the positions of chief deputy insurance commissioner then a trustee for the Executive Life Insurance Company. He also served as a senior executive at Amfac Incorporated from 1983 to 1990. Mr. Baum currently serves as a director and chair of the governance committee of Redwood Trust Inc.

**Ms. Michele Gault, Deputy Director**

Ms. Gault, of Sacramento, served as the executive director for the Northern California World Trade Center in Sacramento from 2005-2007. Previously, she worked in Germany as a visiting professional at the Bavarian Ministry of Economics, and at Infineon Technologies. Prior to that, Ms. Gault was the international project coordinator for California Business Investment Services (CalBIS). From 2001-03, she was the assistant director of the California State World Trade Commission and trade policy analyst at the California Technology, Trade & Commerce Agency. She is on the advisory board of the World Affairs Council of Sacramento.

**Ms. Leslie Mintz Tamminen, Consultant**

Ms. Tamminen serves as an advisor to Lt. Governor John Garamendi and the California Commission for Economic Development. She also works as an environmental consultant with Seventh Generation Advisors, in Santa Monica, CA. From 1997 to 2008, Leslie was the Legislative Director and staff attorney for the environmental nonprofit organization Heal the Bay, where she was responsible for development and implementation of statewide legislation to clean up water pollution, including ballot initiatives, and the first-ever state Education and the Environment Initiative, a requirement for environmental education principles and curricula development in all core disciplines in public schools for K-12.

## APPENDIX III

### *Selected Economic and Workforce Development Resources*

#### **State Government**

California Labor and Workforce Development Agency - [www.labor.ca.gov](http://www.labor.ca.gov)

- California Business Investment Services (CalBIS) - [www.labor.ca.gov/calBIS](http://www.labor.ca.gov/calBIS)
- California Economic Strategy Panel - [www.labor.ca.gov/panel](http://www.labor.ca.gov/panel)

California Business, Transportation & Housing Agency - [www.bth.ca.gov](http://www.bth.ca.gov)

- California Business Portal - [www.calbusiness.ca.gov](http://www.calbusiness.ca.gov)

California Community Colleges Economic and Workforce Development Programs - [www.cccewd.net](http://www.cccewd.net)

California Workforce Investment Board - [www.calwia.org](http://www.calwia.org)

California Department of Housing and Community Development, Community Block Development Grant Program - [www.hcd.ca.gov/fa/cdbg](http://www.hcd.ca.gov/fa/cdbg)

California Employment Training Panel - [www.etp.cahwnet.gov](http://www.etp.cahwnet.gov)

California State Assembly Committee on Jobs, Economic Development and the Economy - [www.assembly.ca.gov/acs/newcomframeset.asp?committee=131](http://www.assembly.ca.gov/acs/newcomframeset.asp?committee=131)

#### **Non-Profit Organizations**

California Association for Local Economic Development (CALED) - [www.aled.org](http://www.aled.org)

Team California - [www.teamca.org](http://www.teamca.org)

California EDGE Campaign - [www.californiaedgecampaign.org](http://www.californiaedgecampaign.org)

GetREAL Coalition - [www.getrealca.org](http://www.getrealca.org)

## Selected Economic Development Organizations by County

County	Organization	Web Site
Alameda	East Bay Economic Development Alliance	<a href="http://eastbayeda.org">eastbayeda.org</a>
Amador	Amador Economic Development Corporation	<a href="http://www.amador-edc.org">www.amador-edc.org</a>
Butte	Butte County Economic Development Corporation	<a href="http://www.butte-edc.com">www.butte-edc.com</a>
Butte, Glenn, Tehama	Tri-County Economic Development Corporation	<a href="http://www.tricountyedc.org">www.tricountyedc.org</a>
Calaveras	Calaveras County Economic Development Company	<a href="http://www.calaverasedc.org">www.calaverasedc.org</a>
Colusa	Colusa County Economic Development Corporation	<a href="http://www.colusacountyedc.com">www.colusacountyedc.com</a>
Contra Costa	Contra Costa Economic Partnership	<a href="http://www.cceconptnr.org">www.cceconptnr.org</a>
Del Norte	Del Norte Economic Development Corporation	<a href="http://www.delnorte.org">www.delnorte.org</a>
El Dorado	Economic Development Department	<a href="http://www.co.el-dorado.ca.us/economic">www.co.el-dorado.ca.us/economic</a>
Fresno	Fresno County Economic Development Corporation	<a href="http://www.fresnoedc.com">www.fresnoedc.com</a>
Fresno	CA Partnership for the San Joaquin Valley	<a href="http://www.sjvpartnership.org">www.sjvpartnership.org</a>
Humboldt	Redwood Region Economic Development Commission	<a href="http://www.rredc.com">www.rredc.com</a>
Humboldt	Arcata Economic Development Corporation	<a href="http://www.aedc1.org">www.aedc1.org</a>
Imperial	Imperial Valley Economic Development Corporation	<a href="http://www.ivedc.com">www.ivedc.com</a>
Inyo	Inyo County	<a href="http://www.inyocounty.us">www.inyocounty.us</a>
Kern	Kern County Economic Development Corporation	<a href="http://www.kedc.com">www.kedc.com</a>
Kings	Kings County Economic Development Corporation	<a href="http://www.kingsedc.org">www.kingsedc.org</a>
Lake	Lake County Economic Development Office	<a href="http://www.co.lake.ca.us/Page2205.aspx">www.co.lake.ca.us/Page2205.aspx</a>
Lassen	Economic Development/Housing Division	<a href="http://www.co.lassen.ca.us/govt/dept/com_dev/economic_development/default.asp">www.co.lassen.ca.us/govt/dept/com_dev/economic_development/default.asp</a>
Los Angeles	Economic Alliance of the San Fernando Valley	<a href="http://www.economicalliance.org">www.economicalliance.org</a>
Los Angeles	Greater Antelope Valley Economic Alliance	<a href="http://www.aveconomy.org">www.aveconomy.org</a>
Los Angeles	Los Angeles Economic Development Corporation	<a href="http://www.laedc.org">www.laedc.org</a>
Los Angeles	San Gabriel Valley Economic Partnership	<a href="http://www.valleyconnect.com">www.valleyconnect.com</a>
Madera	Madera County Economic Development Commission	<a href="http://www.maderacountyedc.com">www.maderacountyedc.com</a>
Marin	Marin Economic Commission	<a href="http://www.co.marin.ca.us/depts/bs/members/mcbds/Brdpage.cfm?BrdId=51">www.co.marin.ca.us/depts/bs/members/mcbds/Brdpage.cfm?BrdId=51</a>
Mariposa	Mariposa County Economic Development Corporation	<a href="http://www.mariposachamber.com">www.mariposachamber.com</a>
Mendocino	County of Mendocino Economic Development	<a href="http://www.co.mendocino.ca.us/econdev/index.htm">www.co.mendocino.ca.us/econdev/index.htm</a>
Merced	Merced County Economic Development Corporation	<a href="http://www.mcedco.com">www.mcedco.com</a>
Modoc	Modoc Economic Development Corporation	<a href="http://www.alturaschamber.org/medc/default.htm">www.alturaschamber.org/medc/default.htm</a>
Mono	Mono County Economic Development Corporation	<a href="http://www.monocounty.ca.gov/departments/economicdevelopment/econdev.html">www.monocounty.ca.gov/departments/economicdevelopment/econdev.html</a>
Monterey	Monterey County Business Portal	<a href="http://www.mcbusiness.org">www.mcbusiness.org</a>
Monterey	Overall Economic Development Commission	<a href="http://www.co.monterey.ca.us/bcandc/oedc.htm">www.co.monterey.ca.us/bcandc/oedc.htm</a>
Napa	Napa Valley Economic Development Corporation	<a href="http://www.nvedc.org">www.nvedc.org</a>
Nevada	Nevada County Economic Resource Council	<a href="http://www.ncerc.org">www.ncerc.org</a>
Orange	Orange County Business Council	<a href="http://www.ocbc.org">www.ocbc.org</a>
Orange	Orange County Economic Development Commission	<a href="http://www.co.orange.nc.us/ecodev">www.co.orange.nc.us/ecodev</a>
Placer	Placer County Office of Economic Development	<a href="http://www.placer.ca.gov/Departments/CEO/EconDev.aspx">www.placer.ca.gov/Departments/CEO/EconDev.aspx</a>
Placer	Sierra Economic Development Corporation	<a href="http://www.sedd.org">www.sedd.org</a>
Plumas	Plumas County Northern California Visitors Bureau	<a href="http://www.plumascounty.org">www.plumascounty.org</a>
Riverside	Coachella Valley Economic Partnership	<a href="http://www.cvep.com">www.cvep.com</a>

County	Organization	Web Site
Riverside	Inland Empire Economic Partnership	<a href="http://www.ieep.com">www.ieep.com</a>
Riverside	Riverside County Economic Development Agency	<a href="http://www.rivcoeda.org">www.rivcoeda.org</a>
Riverside	Southwest California Economic Alliance	<a href="http://www.swrco.com">www.swrco.com</a>
Sacramento	Sacramento Area Commerce & Trade Organization	<a href="http://www.sactoedc.org">www.sactoedc.org</a>
Sacramento	City of Sacramento Economic Development	<a href="http://www.cityofsacramento.org/econdev/">www.cityofsacramento.org/econdev/</a>
San Benito	San Benito County One-Stop Career Center	<a href="http://www.sbcjobs.org">www.sbcjobs.org</a>
San Bernardino	San Bernardino County Economic Development Agency	<a href="http://www.sbcounty.gov/eda/ed/">www.sbcounty.gov/eda/ed/</a>
San Diego	San Diego Regional Economic Development Corporation	<a href="http://www.sandiegobusiness.org">www.sandiegobusiness.org</a>
San Diego	San Diego North Economic Development Council	<a href="http://www.sandiegonorthedc.org">www.sandiegonorthedc.org</a>
San Diego	South County Economic Development Council	<a href="http://www.sandiegosouth.com">www.sandiegosouth.com</a>
San Diego	Southeastern Economic Development Corporation	<a href="http://www.sedcinc.com">www.sedcinc.com</a>
San Francisco	San Francisco Center for Economic Development	<a href="http://www.sfcde.org">www.sfcde.org</a>
San Francisco	Bay Area Council Economic Institute	<a href="http://www.bayeconfor.org">www.bayeconfor.org</a>
San Francisco	Bay Area Council	<a href="http://www.bayareacouncil.org">www.bayareacouncil.org</a>
San Joaquin	San Joaquin Partnership	<a href="http://www.sipnet.org">www.sipnet.org</a>
San Luis Obispo	Economic Vitality Corporation	<a href="http://www.sloevc.org">www.sloevc.org</a>
San Mateo	San Mateo County Economic Development Association	<a href="http://www.samceda.org">www.samceda.org</a>
Santa Barbara	Cabrillo Economic Development Corporation	<a href="http://www.cabrilloedc.org">www.cabrilloedc.org</a>
Santa Barbara	Santa Barbara Industrial Association	<a href="http://www.sbia.org/development.html">www.sbia.org/development.html</a>
Santa Barbara	Santa Maria Valley Economic Development Commission	<a href="http://www.santamariaedc.com">www.santamariaedc.com</a>
Santa Clara	Gilroy Economic Development Corporation	<a href="http://www.gilroyedc.org">www.gilroyedc.org</a>
Santa Clara	Silicon Valley Leadership Group	<a href="http://www.svlg.net">www.svlg.net</a>
Santa Cruz	Workforce Investment Board	<a href="http://www.santacruzwb.com">www.santacruzwb.com</a>
Shasta	Economic Development Corporation of Shasta County	<a href="http://www.shastaedc.org">www.shastaedc.org</a>
Shasta	Superior California Economic Development	<a href="http://www.scedd.org">www.scedd.org</a>
Siskiyou	Siskiyou County Economic Development	<a href="http://www.siskiyoucounty.org">www.siskiyoucounty.org</a>
Solano	Solano Economic Development Corporation	<a href="http://www.solanoedc.org">www.solanoedc.org</a>
Sonoma	Economic Development Board	<a href="http://www.sonoma-county.org/edb">www.sonoma-county.org/edb</a>
Stanislaus	Stanislaus Economic Development and Workforce Alliance	<a href="http://www.stanalliance.com">www.stanalliance.com</a>
Sutter	Yuba-Sutter Economic Development Corporation	<a href="http://www.ysedc.org">www.ysedc.org</a>
Tehama	Tehama Local Development Corporation	<a href="http://www.tldc.com">www.tldc.com</a>
Tulare	Economic Development Corporation Tulare County	<a href="http://www.sequoiavalley.com">www.sequoiavalley.com</a>
Ventura	Economic Development Collaborative of Ventura County	<a href="http://www.edc-vc.com">www.edc-vc.com</a>
Ventura	Ventura County Economic Development Association	<a href="http://www.vceda.org">www.vceda.org</a>
Ventura	Cabrillo Economic Development Corporation	<a href="http://www.cabrilloedc.org">www.cabrilloedc.org</a>
Yolo	Yolo County Office of Economic Development	<a href="http://www.yolocounty.org/Index.aspx?page=357">www.yolocounty.org/Index.aspx?page=357</a>
Yuba	Yuba County Economic Development Department	<a href="http://www.yubacounty.org/Home/index.htm">www.yubacounty.org/Home/index.htm</a>
Yuba	Yuba-Sutter Economic Development Corporation	<a href="http://www.ysedc.org">www.ysedc.org</a>



*State Capitol, Room 1114 | Sacramento, CA 95814*

*Phone (916) 445-8994 | Fax (916) 323-4998*

*[ced.ca.gov](http://ced.ca.gov)*